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Remarks on the management  
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REMARKS

ON THE

MANAGEMENT OF THE CIRCULATION;

AND ON THE

CONDITION AND CONDUCT

OF THE

BANK OF ENGLAND

AND OF

THE COUNTRY ISSUERS,

DURING THE YEAR 1839.

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BY SAMUEL JONES LOYD.

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LONDON:

— PELHAM RICHARDSON, 23, CORNHILL.

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Where there is much desire to learn, there of necessity will be much arguing, much writing, and many opinions ; for opinion in good men is but knowledge in the making.

MILTON.

I confidently hope that no fallacious reasoning will be listened to ; that we shall at last open our eyes to the dangers that beset us—that we shall examine coolly and decide manfully.

RICARDO.

*January 1st, 1840.*

# REMARKS,

ETC.

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## CHAPTER I.

### *On the Management of the Circulation previous to 1839.*

IT has been observed that the history of England is emphatically the history of progress. It is the history of a constant movement of the public mind, producing a constant change in the institutions of a great society. The subject of Currency does not constitute an exception to this remark. Upon all questions having reference to the management of the circulation, and the principles upon which it should be regulated, the public mind has long been, and still continues, in a state of transition ; whilst the history of our legislation upon this, as much as upon most other branches of public policy, is emphatically a history of progress.

The abandonment, however, of ancient prejudices for more enlightened views has hitherto been far from complete. The true principles of currency are by no means universally recognised in the

present day, and even those who in theory embrace, and indeed strenuously maintain, what we conceive to be the true faith on this subject, exhibit a striking want of confidence and firmness when called upon to carry their principles into practice. The errors and inconsistencies which pervade the discussion of this subject in almost all our public journals, and from which our parliamentary debates are not wholly free, afford sufficient proof of the former part of our remark ; whilst the anomalous state in which the paper issues of this country are still suffered to remain, and the faltering and hesitation exhibited by the Bank of England under the action of a heavy drain upon her bullion, are striking examples of that inconsistency in measures, which arises from the want of sufficient confidence in the truth of the principles on which they depend. Such is the vacillating and unstable condition of the human mind during the transition from old errors to new truths. The force of habit and the influence of former convictions are not easily over-powered ; and the hold which new doctrines obtain upon the public mind remains precarious and incomplete, until the conclusive testimony of experience can be brought to their support.

A short reference to the progress of public opinion upon questions of currency, and to its present state, will afford a further illustration of these remarks.

During the period of the suspension of cash pay-

ments, the public was in a state of very imperfect information upon the subject of currency. The doctrines of the Bullionists, it is true, had been propounded ; but they had not then succeeded in making any effectual impression upon the community at large. Silent contempt in some quarters, and jealousy and suspicion amounting almost to animosity in others, was the reception which they generally met with ; until the discussions of 1819 preparatory to the resumption of cash payments, and an examination of the phenomena presented during the period of suspension, produced a great change in the tone of public opinion on this subject.

Previously to that time, the self-styled practical men rather than the abstract reasoners were the popular oracles of the day ; and the prevalent impressions were derived almost entirely from their views and doctrines. The important consequences dependent upon variations in the amount of the circulating medium, and the mode in which these influence the state of prices, the fluctuations in the exchanges, and the drain upon the Bank for bullion, were very imperfectly apprehended. Consequently the true character of that most important measure, the suspension of specie payments ; the nature of the new position in which it placed the Bank, and of the new duties on the part of the Directors of the Bank, which arose out of it, could not be properly understood. The general impression entertained with respect to the duty which the Bank had to

perform in the regulation of the currency, was of a very vague and undefined character ; and it was met, not unnaturally, on the part of the Bank, by a course of procedure equally devoid of reference to any distinct or intelligible principle. The necessity of paying its notes in specie on demand being suspended, by what rule or upon what principle was the Bank to be guided in regulating the amount of its issues ? This was the question necessarily forced at that time upon the Bank Directors for their decision, and upon which the public also were virtually called upon to exercise their judgment.

The view taken on this point by the Bank, and acquiesced in, apparently, by the public, can be best stated in the words of those who were the leading Directors of the Bank at that time. When the Parliamentary Committee was appointed in 1819 to consider the expediency of resuming cash payments, they called before them Mr. Harman, the late Governor of the Bank of England, and Mr. Dorrien, the then Governor. The views of these gentlemen may be fairly taken as those by which the Bank had been guided during the suspension period in the management of the circulation, and especially in the regulation of its amount.

**Mr. Harman is asked,—**

“ What is the indication of there being circulation enough in the country, neither too little nor too much, and what the regulator that determines that sufficiency ? ” “ If it is meant to allude to discounts, I should have only the old answer to give ; undoubtedly good paper being sent into the Bank for

" discount, of which we must judge the best we can, that is " the criterion; I take for granted that established houses of " good character would not come to the Bank to pay five per " cent. for money, if they did not want it."

" What regulates, in your opinion, the amount of circulating " medium which is necessary for the purposes of the country; " is it the amount of revenue and expenditure and the general " amount of foreign trade in the country, or on what other " circumstances does the amount of the circulating medium " depend?" " I should think decidedly what has been suggested " the amount required for the revenue, and the general expendi- " ture, and also what is wanted for inland and foreign trade."

" Do you think that the increase of the issues of paper would " not increase prices?" " I think an *undue* increase of the " issues of paper decidedly would increase prices."

" What do you mean by *undue* in that sentence?" " The " meaning of the word ' *undue*' in that sentence is an over-issue; " if more paper is issued than the honest real wants of the public " require, that certainly would have an unfavourable effect upon " prices."

" Do you mean by that, more paper issued than private indi- " viduals may employ with profit to themselves?" " More " paper issued than private individuals may employ with just " profit to themselves; if so large a sum of paper is issued as to " induce men to speculate improperly, that I should say was an " *undue issue.*"

" State what you consider to be the criterion of a super- " abundant issue?" " The criterion of a superabundant issue " is when money will not produce a sufficient interest. I think, " when in fact there is no demand for money, it will very soon " discover itself in the Money-market, whether there is a super- " abundance or not."

" In what manner?" " It will be, if I may use the phrase, " hawked about at a lower rate of interest than is usual."

" Do you think that the foreign exchanges are affected by any " considerable increase or diminution in the amount of the issues

" of the Bank of England?" " I cannot say that I have ever thought that they are."

" With a view to what immediate effect would the Bank reduce their issues?" " To the consideration of their own security, and to make themselves as independent as possible, in order that if there should be a run upon them they should have the means of fulfilling their engagements. Putting, as the Committee invite me to do, the consideration of the public out of view, it would then be for the safety of the Bank exclusively that I should act, and therefore reduce the issues at all events, that we might fulfil our own engagements."

" Would it be with a view to facilitate the purchase of gold by the reduction of its price in the market?" " That would not be my first object; an extravagant lowering of the amount of paper would very likely have the effect of lowering the price of gold, but inasmuch as we withdrew from circulation our paper, the means we already possess would be more equivalent."

Mr. Dorrien is asked,—

" Is the Committee to understand that the Bank of England regulate their discounts solely by a view to the nature of the transaction and the state of the parties, and not with any view to the state of foreign exchanges?" " If a house which is in the constant habit of dealing in exchanges were to send in a large sum for discount, at a time that the exchanges were unfavourable to the country, it certainly would become a part of the consideration."

" Is that because such a state of exchange might affect the credit of the house?" " No; with reference to the good of the country at large."

" Then the discounts of the Bank of England are influenced by a view to foreign exchanges, in a case where the applicants for discount are foreign merchants?" " Where they are dealers in exchanges."

" Are the discounts of the Bank of England in all other cases regulated solely by a regard to the transaction and the character

" of the parties?" " The various circumstances that bear upon the question, the solidity of the party, the amount of their account, and the nature of their business are taken into consideration."

" In any other case than that you have stated, would regard be had to the state of the exchanges?" " I do not think that that is made a consideration in a general way."

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" Do you conceive the effect of the repayment (by Government of a portion of the Bank advances) would be the reduction of the issues of the Bank?" " The Bank is always ready to lend on commercial paper that is legitimate in its origin, and is not carried to too great an extent by the parties who apply for discount. The issues of the Bank would be regulated according to the absolute wants of the country, but that must be learnt by experience."

The full import of these replies can only be understood by reading them in connection with the whole of the examination from which they are extracted; they are of themselves, however, sufficient to shew that the management of the circulation during the period of suspension was not regulated by reference to any definite and established principle. Neither upon the subject of the measure by which the excess or deficiency of the amount of the circulation was to be determined; nor of the means by which the circulation when in excess was to be restricted; nor of the mode by which the amount of the circulation affects the state of the exchanges; nor of the principle upon which a reduction of its issues was calculated to secure to the Bank its competency to discharge its notes in gold; does it

appear that any clear and fixed views were entertained by those who at that time were entrusted with the management of the currency. A supposed obligation to meet the real wants of commerce, and to discount all commercial bills arising out of legitimate transactions, appears to have been considered as the principle upon which the amount of the circulation was to be regulated ; whilst the single circumstance which, under such a system, could keep their issues within any reasonable bounds, viz. the accidental fact that the market rate of interest, for bills of the description which were alone discountable at the Bank, did not materially or for any length of time exceed the Bank rate of discount, was wholly unobserved, and therefore unappreciated by them. (See Appendix A.)

A connection was admitted to exist between the state of the exchanges and the amount of the circulation ; but no definite idea was formed of the nature of this connection, nor was it deemed that any practical rule could be deduced from it, for the guidance of the Bank in regulating the amount of its issues.

The rate of interest seems to have been looked upon as a much better barometer for measuring the fluctuations of the circulation ; whilst a reduction of its issues was held to be a measure of protection to the Bank, not so much on account of any influence it might exercise upon the state of the exchanges, and its consequent tendency to put an end to the

inducement for demanding gold, as on account of its simple effect in reducing the absolute amount of notes which could be presented for gold. Indeed, the doctrine that the state of the exchanges is influenced by the amount of the circulation, was formally denied by a solemn resolution of the Court of Directors, passed 25th March, 1819, and laid before Parliament. "That this Court cannot refrain from adverting to an opinion, strongly insisted on by some, that the Bank has only to reduce its issues to obtain a favourable turn in the exchanges, and a consequent influx of the precious metals; the Court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment."

It could not be expected that the measures of a body under the influence of views so vague and erroneous, should be characterized by wisdom or efficiency; and an example of the absurd and even dangerous consequences to which they were calculated to lead, was afforded in the measure which the Bank adopted as preparatory to a more general and complete return to cash payments. Having accumulated a considerable quantity of specie, the Bank thought that the most natural and effectual mode of preparing for a general resumption of cash payments was, to spread the accumulated store of specie throughout the country by the intermediate adoption of a partial resumption. Accordingly she undertook to pay all her notes dated

before a given day, and also all small fractions of dividends, in gold. But as the Bank did not understand the principle upon which the exchanges had taken a favourable turn and brought the gold into her coffers, so she omitted, when distributing that gold to the public, to take any measures for maintaining the favourable state of the exchanges, and preventing the gold from being again drained out of the country. "It appears from the evidence " of Mr. Harman, that during the whole of the " year 1817, the Bank did not think it necessary " to make any reduction of its issues, either in con- " sequence of the effect of foreign loans upon the " exchanges, or of its payments in gold made in " conformity to the notices above referred to."—  
*Lords' Report, 1819.*

The man who, because he had accumulated an unusual quantity of water, thought that he could therefore fill with it a tub which had lost its bottom, was not more absurd than the Bank, in thinking that the accumulation of specie put it in a position to make some effectual progress towards a return to cash payments, without any previous or accompanying measures for putting a bottom to its tub by regulating the exchanges. These soon took an unfavourable turn; the Bank parted with nearly seven million of its treasure without making good a single step towards the object in view. In this position the Bank of England was found by the Parliamentary Committee of 1819, which lost no time in

making a special report, calling for legislative interference to stop an expenditure of treasure, which, being founded upon no principle, could lead to no beneficial result.

Such was, at that period, the wisdom of men who boasted of their practical knowledge, and rejected the theories of those who are sometimes sneeringly denominated philosophers and abstract reasoners ; and it is profitable to dwell upon the example, because the same feeling is still in existence in the present day. The advanced intelligence of the age, and the unquestionable triumphs which theorists have obtained over their adversaries by the practical realization of their views, have placed them in a more advantageous position, and secured greater weight to their authority ; still, however, the disposition is too prevalent to compromise or to suspend principles altogether, when the immediate consequence to which they lead, involves temporary inconvenience or partial suffering ; and if at such a moment the wavering are reminded of the principles which they have acknowledged, and are called upon to maintain their consistency, the response is not unmixed with a half-suppressed but angry murmur against the narrow-minded or the hard-hearted theorist. There are subjects, undoubtedly, upon which

“ the head

“ Might learn a useful lesson from the heart,”

but the principles of economical science, and the

practical application of them, is not the subject upon which those instructions can be most safely admitted.

II. Here terminates the dark age of currency; and we now enter upon a period characterized by more enlightened views. The Reports of the Select Committees of both Houses of Parliament upon the expediency of resuming cash-payments in 1819, were founded upon the adoption of the doctrines of the Bullionists ; and from that time it may be said that the principles of currency as expounded by them have supplanted the so-called practical views which had previously prevailed, and have been recognised by the public sentiment as the code of laws by which the monetary system of the country ought to be governed.

Those Reports recognised “ the restoration of the “ currency of the country to a state of regulation “ by its ancient metallic standard,” as an object of paramount importance to the interests of the community, and which ought to be accomplished at the earliest period which should be found safe and practicable.

For the effectual accomplishment of that object, the necessity was admitted of securing to the Bank of England a greater power of controlling the amount of its issues, because, by a strict regulation of them, the Bank would be enabled to influence the foreign exchanges, and, consequently, to secure

herself against an unlimited demand for gold. For the purpose of giving to the Bank that greater control over its issues, it was recommended that a large portion of the debt due from the Government to the Bank should be repaid. A portion of that repayment it was intended should be applied by the Bank to the immediate reduction of its issues, which was necessary to render the resumption of cash-payments practicable and safe; whilst the other portion, being added to the capital of the Bank already employed in mercantile discounts, would thus be rendered more immediately available for the purpose of still further reduction of her issues, whenever peculiar circumstances or any unexpected emergency should render such a step necessary for the due regulation of the exchanges. All the witnesses, be it observed, and both the Committees of Parliament, adopted and acted upon the doctrine that issues by the Bank upon the discount of mercantile bills are more immediately under the power and control of the Bank, and more capable of being contracted at her discretion, than issues in any other form, and more especially than issues in the form of advances made to Government.

“ To a demand, resulting from this source, (ex-  
“ cess of the market-price of gold above the Mint-  
“ price,) every bank issuing paper convertible into  
“ either of the precious metals, must at all times  
“ be liable; and unless the market-price of gold  
“ can be kept within certain limits of deviation

“ from the Mint-price, either by the reduction of  
 “ the issues of paper, or by the effect of a favour-  
 “ able balance of payments upon the exchanges,  
 “ the whole system of banking must necessarily  
 “ fall to the ground.”

“ As it would be impossible for any person to  
 “ draw bullion from the Bank except in exchange  
 “ for Bank-notes, no demand could be made upon  
 “ the Bank to any great extent for gold without  
 “ occasioning a scarcity in the currency, which  
 “ would tend to raise the value of those notes, and  
 “ to remove the temptation to present them in  
 “ exchange for bullion.”—*Lords' Report, 1819.*

“ However the exchanges may have been affected  
 “ in the course of the last and the preceding  
 “ year, your Committee see no reason to apprehend  
 “ that the causes above mentioned, or any similar  
 “ causes, can continue to affect them in such a  
 “ degree as to preclude the Bank of England, by  
 “ a constant reference to the exchanges and the  
 “ price of gold, and when necessary, by a cautious  
 “ reduction of their paper-currency, from gradual-  
 “ ly approximating its value to that of gold, and  
 “ ultimately re-establishing and maintaining it at  
 “ par.”

“ If the price of gold shall remain the same as  
 “ it is at present, the demand from the Bank,  
 “ which will have to deliver it at that price, will  
 “ necessarily be very limited. If in the interval  
 “ any causes shall affect it, and produce a rise in

" its price, the Bank must, in that case, contract  
" its paper either positively, as compared with its  
" present amount, or relatively, to any increased  
" demand which there may be for it, and thus, by  
" increasing its value as currency, proportionately  
" diminish the inducement to demand gold."

" It will be seen by reference to a communica-  
" tion made by the Court of Directors of the Bank  
" to the Committee, as well as from the whole  
" tenor of the evidence of the Directors, who were  
" examined personally before them, that they con-  
" sider the repayment of a large proportion of  
" those advances essentially necessary, preparatory  
" to the resumption of cash-payments. As the  
" notes which are issued by the Bank upon the  
" discount of mercantile bills, revert to them at  
" the expiration of the period which these bills  
" have to run, and which never exceeds 65 days,  
" it is clear that that portion of their issues can be  
" extended or limited at their discretion; whilst  
" over the notes which are issued in consequence  
" of advances to Government, they have not prac-  
" tically the same control. To whatever extent  
" these advances may be reduced, the Bank will  
" gain a corresponding control over the amount of  
" their circulating paper, and will be enabled to  
" supply the diminution of notes thus created by  
" an increase of their issues, either upon the dis-  
" count of mercantile bills, or by the purchase of  
" bullion, or, if necessary, to make a reduction in

"the total amount of notes outstanding equal to  
"the whole or any part of the repayment."—  
*Commons' Report, 1819.*

It is refreshing to dwell upon these passages from the Reports of the Committees, in contrast with the statements upon which we have previously commented. Instead of vague rules of procedure, directed to objects not clearly defined, and to work by processes wholly unexplained ; we are here presented with clear and definite principles respecting the management of the circulation ; whilst the reasons upon which those principles depend, the steps through which the anticipated results are to be attained, and the precise extent and character of those results are all fully developed. Doctrines, thus clearly explained, and arrived at by the process of sound reasoning and logical deduction, may be safely embraced with a degree of confidence which no other considerations would warrant ; and accordingly, it has been found that the principles laid down in these Reports have been verified by all subsequent experience. Legislative authority and sanction was thus for the first time given to sound principles of currency ; and doctrines, which had previously been held only by a limited number of reflecting individuals, whilst by the majority of the nation they had been looked upon with feelings of jealous apprehension, were at length recommended to the favour of the public at large, and adopted as safe guides for practical action in

affairs of the highest importance. From this period the progressive advancement of these principles has been steady and uninterrupted ; the force of reason, and the increasing weight of experience, have co-operated in their support : so that in the present day, the number of those who withhold from them an abstract assent is limited, although too many are found who desert their standard in the hour of pressure, and either from an imperfect perception of the nature of those principles, or from want of sufficient confidence in their certain tendency to the ultimate accomplishment of right results, recommend or sanction measures utterly irreconcileable with them. It is not, however, the mere going over the theory of currency, and talking learnedly about it, which will secure to us the advantages of a well-regulated circulation. The passive acknowledgment of the principles of the subject is of little moment, unless it leads to the practical habit of acting up to those principles, and of making all our measures, really and truly, conform to them. A sound form of doctrine is little better than a tinkling cymbal, unless it be followed by a course of action consistent with its precepts.

III. The next well-defined step in the progress of public intelligence upon the subject of currency, was at the period of the appointment of the Parliamentary Committee, preparatory to the renewal of the Bank Charter in 1832. The evidence

given by the most intelligent of the Bank Directors on that occasion contrasts in the most extraordinary manner with the evidence given under similar circumstances only thirteen years before, and affords a very satisfactory proof of the rapid progress which sound principles had made in the public mind, and especially amongst the Directors of the Bank, during that period.

A very curious and striking account of the circumstances connected with this change of opinion on the part of the Bank, and the corresponding change in her system of managing the currency, is given in the evidence of Mr. Ward. " In " the year 1819 when the Committee sat, there " were some resolutions forwarded to the Com- " mittee from the Bank, stating some of the prin- " ciples they had regarded ; and it will be recol- " lected, that they distinctly denied the principle, " that the Exchanges were to be regarded in " regulating the issues. Subsequently to that " period, opinions became changed, and, of course " in the working of the machinery, they found the " merits of the case such as they really were ; and " a growing disposition manifested itself to heed, " in a greater degree than they hitherto had done, " the principle of exchange and bullion ; but in " 1827 I moved that that resolution should be " rescinded, and from that moment I have consi- " dered it the practice of the Bank, and it was the " practice in a great degree, even previously to

" that." (p. 143, Q. 2074.) In a subsequent part of his evidence Mr. Ward remarks, " It was first considered a theoretical notion, but subsequently it was found, little by little, that the practice did agree with the theory." In fact, the evidence given by the then Governor of the Bank, Mr. Horsley Palmer, and supported by the concurrent testimony of his coadjutors, Mr. Ward and Mr. Norman, would constitute no bad summary of the true principles of currency ; and it is well known that the soundness of views developed on the part of the Bank Directors on that occasion, did much towards conciliating that degree of public confidence, which led to the renewal of the Charter. No doubt, or difference of opinion, was exhibited respecting the principles upon which the issues of the Bank should be managed ; the only difficulty seemed to be respecting the best and most efficient mode of carrying those principles into practical operation.

The convertibility of the notes of the Bank was to be secured, by regulating the amount of the issues with reference to the state of the Foreign Exchanges ; and the increase or diminution of gold, in the hands of the Bank, was to be taken as the only certain and safe test of the favourable or unfavourable state of the Exchanges ; consequently the amount of her paper issues was to vary with a direct reference to the fluctuations in the amount of bullion in the possession of the Bank.

Upon these points there was an universal agreement. But here, an important question arose. The amount of the paper issues of the Bank is to be regulated with reference to the fluctuations in the amount of specie; but by what process or arrangement is this regulation of the amount of the paper issues to be most conveniently and most efficiently accomplished? If circumstances require a reduction of the circulation, how is the precise amount of reduction to be ascertained and determined? What securities is the Bank to select for realization? Upon what classes is she to throw the first pressure of her action? Difficult questions these to which to give a satisfactory reply; and a most delicate discretion which is thus thrown upon the Bank. To meet this difficulty, a plan was suggested by the Governor and some of the Directors, in their examination before the Committee, which was characterized by a singularly happy combination of sound views of general principles, with sagacity and contrivance in the means proposed for carrying them into effect. It was proposed to take "the "period of a full currency and consequently a par "of Exchange," and to invest and retain in securities two-thirds of the available funds of the Bank, and to hold the remaining third in coin and bullion. This being done, the Bank was thenceforth to retain the aggregate amount of the securities unaltered, and whatever demand might arise from the action of the public in presenting notes for payment was to fall exclusively upon the coin and bullion.

“ The Bank are very desirous not to exercise any power, but to leave the public to use the power which they possess, of returning Bank paper for bullion.” (H. P. evidence, No. 78.) By this means, a rule of action was obtained which would be certain and irresistible in its operation ; whose effects would in all cases be precisely proportionate to the circumstances which called it into action ; and which, whilst it secured these results, would relieve the Bank from the necessity of exercising a discretion in each case, and thus protect her from unjust misconstruction of her measures, to which she might otherwise be exposed, and preserve the public from the effect of miscalculations and errors, into which the Bank might, if compelled to exercise a discretion, very possibly fall. All that principle required, appeared by this plan to be fully satisfied ; whilst the difficulties, which usually attend the attempt to carry an abstract principle into practical operation, were most happily avoided. The simplicity of the plan at once recommended it to public approval. It presented, what had hitherto been considered the abstruse and complicated principles of paper currency in a plain, intelligible, and simple form. All great advances in science are invariably marked by their tendency towards simplification ; although arrived at by a laborious progress through complication and difficulty, their peculiar merit is to present, what was previously confused, in an orderly and simple form, and to render results,

attained only by a series of efforts of laborious and painful thought, so clear and intelligible, that every one wonders where the difficulty was, and in what the discovery consists. In this respect the plan we have now been considering is entitled to rank as a happy instance of scientific simplification.

These remarks, however, are made upon the assumption, that the plan in question was to be considered as applicable exclusively to the management of the currency. Unfortunately, it was conceived that the different branches of the business of the Bank were so closely blended and interwoven with each other, as to render it impossible to establish a practical distinction between those purposes to which the rule was properly applicable, and those with which it had no legitimate connection. Consequently, in obedience to a necessity, real or supposed, the authors of the rule acquiesced in the application of it indiscriminately to the general management of the whole concern, and in so doing they diminished its simplicity, and altogether destroyed its efficiency. The evidence of this will be sufficiently clear as we proceed.

In the available funds of the Bank, to be invested in the manner and in the proportions already stated, were included not only the funds arising from the issue of a paper circulation; but also the funds arising from the strictly banking operations of the concern; the Deposits were included as well as the

Circulation ; and thus a rule, simple and almost perfect for the management of a paper currency, was applied to the double purpose of regulating the operations of a Bank of Deposit, as well as of a Bank of Issue. The principles upon which these two branches of business ought to be conducted are perfectly distinct, and never can be reduced to one and the same rule. Nothing more sound in principle, nothing more safe in practice, than to invest a certain portion of the proceeds of a national paper currency in fixed securities, and to retain the remaining portion in coin or bullion ; taking care that the proportion shall be so fixed, as to leave the bullion sufficient to meet all the usual, and indeed all the reasonably possible, fluctuations of amount. On the other hand, the only rule applicable to the management of banking deposits, is, that of increasing investment in securities as the deposits increase, and again realizing a portion of those securities, as the deposits are withdrawn. The two things, the management of a paper currency, and the management of banking deposits, cannot be blended together in one system, and treated as subject to the same laws and to be governed upon the same principle. The attempt to do so, is like that of the unskilful chemist, who attempts to unite together substances which have no affinity, and will not combine, and therefore obtains only a confused and useless mixture, where he looked for a perfect chemical compound.

The impression may possibly exist with some

persons that the deposits of the Bank of England are different from the ordinary deposits of other concerns; more fixed in their nature, less fluctuating in their amount; and therefore not equally subject to the rules which apply to other deposits. This, however, is not the case; the deposits of the Bank of England were in

March, 1838 .....	£11,535,000
January, 1839 .....	10,315,000
October, 1839 .....	6,734,000

an amount of fluctuation probably not equalled by the fluctuation in the deposits of any other concern within the same period of time.

Let us now look to the nature of the consequences which either have actually occurred, or which may possibly ensue, from the application of the rule in the form in which it has hitherto been adopted by the Bank.

First. For the simple and exclusive purpose of regulating the circulation of the country, it leaves us without any rule whatever; and accordingly we find, by the published returns, that no fixed relation exists between the amount of bullion and the amount of circulation.

Second. The circulation may decrease whilst the bullion is increasing, or it may increase whilst the bullion is decreasing. We have had practical examples of each kind within the last few years.

Third. The bullion, through the demands of the depositors, may leave the Bank coffers in large amounts, in fact it may be wholly drained out, without any contraction of the circulation, and therefore without any effect being produced upon prices or foreign exchanges, by means of which the continuance of the drain may be checked. This is a possibility: it cannot strictly be said to have occurred, though the condition of the Bank has lately approximated very closely to this state of things.

It is further to be observed that none of these results could occur under the application of the rule in question, strictly and exclusively, to the management of the circulation; it is only when banking transactions, as well as those of currency, are brought under its operation that these contingencies arise.

The force of these objections appears to have been felt and admitted by the parties from whom the first suggestion of the principle emanated. “The “authorities of the Bank did not imagine that a re-“duction of deposits was equivalent to a reduction “of circulation, or that consequently their principle “was perfect: they knew its weak point, viz. that “it allowed an adverse exchange to be met by a di-“minution of deposits, instead of by a diminution of “the circulation; but they propounded it because “it was the best, the easiest to be explained and

"acted upon, that they could venture to bring forward or hope to maintain."—*Norman on Currency*, p. 80.

We have now traced the progress of public intelligence upon the subject of currency, from the period when the first practical authorities repudiated the principle of regulation by reference to the exchanges, until we have seen a complete revolution of sentiment on this point; and a plan proposed by the Bank itself, for rendering the application of that principle simple and effectual.

It would be satisfactory could our statement here terminate; but the steps by which the human mind advances from the dark abysses of error to the pure and elevated light of truth are generally gradual and slow; nor has it been otherwise in the present instance. The value of the principle which we have embraced has to a great extent been neutralized, in consequence of a confused perception of the limits, within which the application of it should be confined; and we must add, that the application of the principle, even as proposed by the Bank, has not been adhered to in the hour of trial with that steadiness of purpose which alone can prove that it has been adopted under the influence of a thorough conviction, and enforced by the approving sanction of the public judgment.

## CHAPTER II.

*On the Management of the Circulation during the Year 1839.*

I. During the year 1836 a combination of circumstances subjected the Bank to a heavy pressure, and a serious diminution of her bullion was the consequence. In the following year a change of circumstances produced the opposite result, and a large increase of her bullion ensued. Upon an examination of the published accounts of the Bank during these periods, it was contended by some parties that the Bank had departed altogether from her own rule, and still more so from that which ought to be the rule, for the management of the currency. In the former year they urged that whilst the bullion had rapidly diminished, the circulation had not undergone a corresponding decrease, and the securities had actually increased. In the latter year, it was observed that whilst the bullion was rapidly increasing, the circulation had diminished and also the securities. The reply to these objections rested upon the ground that in

these years the accounts of the Bank were affected by peculiar and unusual transactions, to which the rule ought not to be applied ; that with respect to the year 1836, if these peculiar transactions were struck out, the accounts would then be found to be in conformity with the rule of the Bank ; and that with respect to the year 1837, the deviation of the Bank from the prescribed rule on that occasion was necessary as a corrective of her previous deviation (admitted by some though denied by others) in the opposite direction the preceding year. It is not necessary now to make further reference to those discussions ; the circumstances which gave rise to them have since been succeeded by another series of events, equally, if not more, important ; and on this, as on the previous occasions, the state of the circulation, and the conduct of the Bank in the regulation of it, become most important and interesting subjects of inquiry.

Fortunately, on this last occasion we are not liable to be embarrassed by those peculiarities which were stated to affect the preceding periods ; there are no peculiar transactions, so far as the public are informed, calculated to make the accounts tell a delusive tale, as in 1836 ; neither can any rectification of previous misconduct be urged as necessitating a course directly opposed to that which principle would otherwise require, as in 1837. The accounts of the two last years, we presume, may be taken as giving a true and correct

view of the condition of the Bank, at a time and under circumstances when there has existed no peculiar cause to justify an apparent departure from those which she has acknowledged as the rules of her conduct. We are well aware, in making this remark, that the period in question has been one of heavy pressure and of severe trial to the Bank ; an unfortunate succession of two bad harvests, a large importation of foreign securities from the United States, a peculiar condition of the money-market at Paris, have all acted simultaneously to cause a heavy drain upon this country. In this respect the similarity of the circumstances which were considered as augmenting the difficulties of the resumption of cash-payments in 1819, and of the recent circumstances which have put our power of maintaining those cash-payments to the severest test, is peculiarly striking. The language which describes the one, would convey an equally faithful account of the other.

“ This unfavourable state of the exchanges is  
“ attributed by some persons who have been exa-  
“ mined before the Committees to the continued  
“ operation of foreign loans, to the temptation held  
“ out by a high rate of interest to the investment  
“ of British capital in foreign funds and foreign  
“ speculations, and to the large purchases of corn  
“ from abroad.”—*Lords' Report, 1819.*

“ Some of the witnesses ascribe the unfavour-  
“ able change in the exchanges to the effect of the

" loans which had been made about that period by  
" foreign powers, to the remittance of British  
" capital for the purpose of being invested in  
" foreign securities and foreign commercial enter-  
" prise, and to the effects of a very large importa-  
" tion of corn in the course of the last year."—  
*Commons' Report, 1819.*

The fact is, that the severe trials to which our monetary system must be occasionally subjected, will always arise from these or from very similar causes ; and whatever be the rule for the management of the circulation, it must be one which will hold good under trials of this nature. Rules, indeed, are made for periods of difficulty ; in ordinary circumstances things will usually manage themselves ; and it is only when pressed by untoward circumstances, or drawn aside by strong temptation, that we require a reference to principle, or the authority of recognised rules, to confine us to our right course. We think, therefore, that it will not be deemed unreasonable to select the past year as the period during which to examine the course of the Bank, for the purpose of ascertaining how far the rule of the Bank for the management of the circulation is sufficient ; and how far there exists on the part of the Bank and the public that conviction of the soundness of the rule which is necessary to secure a faithful adherence to it.

## BANK OF ENGLAND.

*Average of Three Months.*

	Circulation.	Deposits.	Securities.	Bullion.
1838.				
11th January ..	17,900,000	10,992,000	22,606,000	8,895,000
8th February ..	18,206,000	11,266,000	22,569,000	9,543,000
8th March .....	18,600,000	11,535,000	22,792,000	10,015,000
5th April .....	18,987,000	11,262,000	22,838,000	10,126,000
4th May .....	19,084,000	11,006,000	22,768,000	10,002,000
1st June .....	19,018,000	10,786,000	22,648,000	9,806,000
29th June .....	19,047,000	10,426,000	22,354,000	9,722,000
26th July .....	19,286,000	10,424,000	22,601,000	9,749,000
24th August .....	19,481,000	10,298,000	22,747,000	9,746,000
21st September ..	19,665,000	10,040,000	22,846,000	9,615,000
19th October ..	19,359,000	9,327,000	22,015,000	9,437,000
15th November ..	18,900,000	8,949,000	21,171,000	9,339,000
13th December ..	18,469,000	9,033,000	20,707,000	9,362,000
1839.				
10th January ..	18,201,000	10,315,000	21,680,000	9,336,000
7th February ..	18,252,000	10,269,000	22,157,000	8,919,000
7th March .....	18,298,000	9,950,000	22,767,000	8,106,000
5th April .....	18,371,000	8,998,000	22,987,000	7,073,000
2d May .....	18,350,000	8,107,000	23,112,000	6,023,000
30th May .....	18,214,000	7,814,000	23,543,000	5,119,000
1st July .....	18,101,000	7,567,000	23,934,000	4,344,000
25th July .....	18,049,000	7,955,000	24,905,000	3,785,000
22d August .....	17,969,000	8,029,000	25,588,000	3,265,000
19th September ..	17,960,000	7,781,000	25,936,000	2,816,000
18th October ..	17,612,000	6,734,000	24,939,000	2,522,000
12th November ..	17,235,000	6,132,000	23,873,000	2,545,000
12th December ..	16,732,000	5,952,000	22,764,000	2,887,000

II. The preceding table presents to us in one view the fluctuations which have occurred in the circulation, deposits, securities, and bullion of the Bank during the years 1838 and 1839 as they are at present rendered to the public. This table, however, would leave a very imperfect, if not erroneous, im-

pression upon those who examine it, unless they also take into their consideration a fact of a very peculiar, and at the same time of a very important nature, connected with the proceedings of the Bank during the latter half of the past year. It is well known that when the Bank became alarmed at the low amount to which the bullion had been reduced, without any improvement in the appearance of the foreign exchanges, she obtained a foreign credit to the amount of two millions and a half; and it is generally understood that she has used it to nearly the full extent. It is not necessary here to discuss the propriety or otherwise of this measure; the effect of it upon the account now before us is the only point to which we wish to draw attention. By means of this credit the Bank has been enabled to sell bills upon foreign places to the amount of it, and by the notes received in payment for those bills she has effected a contraction of her circulation to that extent which would not otherwise have taken place. Or we may view the effect of the credit in another light; it has placed at the command of the Bank that amount of specie in the principal exchange towns of the Continent, and has thus enabled the Bank to prevent a drain of specie upon her own coffers, which would otherwise have taken place for the purpose of remittance to those quarters. In whichever way we look at the effects of this measure, they are of a forced and artificial nature; and they enable the Bank, in her published

accounts, to present an appearance more favourable than the real state of things would have been under the influence of usual and ordinary circumstances only. In fact, we are justified in saying, that without the protection of this peculiar operation, the bullion of the Bank would have been completely exhausted.

Now let us look at the tale which these accounts tell. What evidence do they afford that the rule of the Bank for the management of the circulation is sufficient to secure the convertibility of the notes?

The drain upon the bullion has occurred principally during the year 1839.

In January it was .....	£9,336,000
In October .....	2,525,000
Decrease, notwithstanding the foreign credit.....	£6,811,000

The corresponding diminution in the liabilities of the Bank has fallen almost entirely upon the deposits; the decrease of the circulation within the same period amounting only to £600,000. Thus we have a decrease of bullion of very large amount, and to so low a point that the position of the Bank is unquestionably rendered insecure, and without the aid of the foreign credit would probably have been desperate; whilst the decrease of circulation, by which alone this course of things could be checked, and the convertibility of the notes ensured,

amounted only in October to the trifling sum of £600,000 ; and, according to the rule, might have been nothing at all, if the depositors had thought proper further to increase their demands to that extent. Is not this a clear reduction of the rule to a practical absurdity ; and a proof, that so long as it is applied to the joint liabilities, and not to the circulation exclusively, it affords no security whatever?

As applicable to this point, we cannot forbear from quoting an observation which occurs in the evidence of Mr. Ward, and which puts the true principle of a paper-currency with peculiar clearness and force. " Individually, as a Director of " the Bank, I do not presume to alter the King's " currency, but I endeavour always to bring the " paper as nearly as possible to what the currency " would be if no Bank existed, and the currency " were all gold." (p. 144, No. 2080.) Who, then, we may ask, has " presumed to alter the King's " currency" during the last year, when we find by the accounts before us that " had it been all gold" the decrease would have been £6,800,000 ; whilst, being a paper circulation and " a Bank existing," the decrease has been only £600,000 ?

III. The striking improvement which has taken place in the condition of the Bank during the months of November and December does not in any respect militate against the force of these re-

marks. The heavy drain upon the bullion began in the early part of the year ; the great reduction in the circulation and the securities takes place at the end of the year, and at a moment when, after a long period of decreasing treasure, the first indications of a return of bullion begin to manifest themselves. In the mean time several events, which it is most desirable to obviate, have occurred. First, the necessity of resorting to a foreign credit. Second, a feeling of distrust respecting the stability of our monetary system has been created throughout the Continent, which has led to a forced sale upon the different European exchanges of all bills upon England, and a suspension in the execution of orders for the purchase of British manufactures for export. Third, the bullion has been reduced to an amount which has left the Bank insufficiently provided against the effects of any demand which might arise from internal and domestic causes. A demand of this nature not being subject to regulation upon any principle, can only be met by the payment of gold on the part of the Bank until it exhausts itself. If the contraction of circulation had commenced with the decrease of bullion, in the beginning of the year, when the circulation was £18,201,000 and the bullion £9,336,000, and had steadily accompanied it throughout, these evils would in all probability have been avoided. At all events this would have been the legitimate means for the prevention of them ; and failing the adoption of this

course, a heavy share of the consequent responsibility must attach to the Bank.

Against the actual exhaustion of its treasure by a drain through the foreign exchanges, the Bank under almost any circumstances has the power of protecting herself; but to do this, she must produce upon the money-market a pressure ruinous from its suddenness and severity; she must save herself by the destruction of all around her. The duty, however, really imposed upon the Bank is of a very different nature; she is bound not only to protect her treasure from actual exhaustion by foreign drain, but also to preserve it at such an amount as shall leave her at all times prepared to bear the probable, or reasonably possible, demands of internal alarm; she must guard not only against the actual calamity of suspension, but against even the reasonable apprehension of it; and at the same time the measures necessary for this purpose must be rendered as little oppressive to the trade of the country as is consistent with the accomplishment of the requisite results. Hence the importance of making the commencement of the action upon the circulation simultaneous with that upon the bullion; it is thus rendered gradual in its operation, and therefore comparatively light in its effects; whilst procrastination upon this subject affords an opportunity for, and indeed promotes, the occurrence of many circumstances calculated to embarrass and obstruct the accomplishment of the end in view. Upon this point, we have the experi-

ence of the past year to instruct us. Had an internal drain upon the Bank sprung up during the months of August, September, or October, when she stood in a difficult position, and her store of specie was reduced to a very low amount, it is impossible to say what consequences might have ensued. The convertibility of the notes might possibly have been maintained, but it would have been by the force of measures pressing with ruinous severity upon all parties dependent upon, or in any way connected with, the money-market. It is to protect themselves against this contingency, to prevent the necessity of sudden and severe measures on the part of the Bank, that all parties are interested in enforcing as far as possible an early contraction of circulation corresponding with the first decrease of bullion. It is always wise to submit to the inconvenience of early preventatives rather than incur the risk of a more distant but greater evil. The reduction of circulation and securities which the accounts of the Bank now exhibit as taking place after the drain of bullion has ceased, and when the stream is apparently beginning to flow in the opposite direction, are correctives, which have lost more than half their value in consequence of not having been sooner resorted to; and the adoption of them at this late period belongs to that branch of wisdom which our homely proverb describes as "locking the door after the steed has been stolen."

IV. But, secondly, what evidence is there that the Bank has faithfully adhered to her rule?

The decrease of the joint liabilities is very far from equal in amount to the decrease of the bullion; and if the state of her accounts be tested by that which she has herself put forward as the fundamental law of her proceedings, viz. the steady maintenance of her securities at a fixed amount; it must be condemned as exhibiting a remarkable departure from the prescribed course.

The amount of the securities was to be kept fixed, under ordinary circumstances; but there might possibly be extraordinary circumstances in which a forcible and more rapid *contraction* of liabilities (than that which the simple action of the public upon the Bank would produce) would be requisite. Such was the rule; what has been the practice?

The securities in Jan. 1839 .... £21,680,000

" " Oct. , .... 24,939,000

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*Increase of securities..... £3,259,000*

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The security given against the foreign credit has no doubt been written off from this account, and therefore the amount of securities under a natural state of things, without reference to the foreign credit, would stand higher than they are represented in this account by £2,500,000.

This *increase*, it must be further observed, has taken place during a period, when, if such a contingency can ever occur, those “extraordinary circumstances” were in course of occurrence which would render necessary a forcible and more rapid *contraction* of liabilities.

Nor is this departure from fixedness in the amount of the securities a single or accidental occurrence; it has rather the appearance of a regularly recurring phenomenon, resulting from some cause, the constancy of whose action indicates an intimate connection with the system upon which our paper issues are managed. Before the period to which we have just referred, it had been observed by Mr. Samson Ricardo, in his pamphlet on a National Bank, (p. 6), “that the decrease of the “bullion, instead of acting upon the circulation “only, in accordance with the correct principle, or “upon the circulation and deposits together, agreeably to the rule of the Bank, has since 1833 “uniformly been accompanied by a corresponding “increase in the securities; in like manner has the “increase of bullion, which has been progressive “for some months past, been accompanied by a “considerable decrease of the securities.”

The rule, it is clear, is altogether neglected; or would it not be more correct to say, is found to be impossible of execution by a body which unites the business of banking with that of issue? The securities fluctuate largely, and their fluctuations, instead

of corresponding with, are usually, if not invariably, in the opposite direction to those of the bullion.

V. It becomes important to ascertain, if possible, to what cause this is to be attributed. The Directors who first explained this rule in so perspicuous a manner in their evidence before the Committee in 1832, Mr. Palmer and Mr. Norman, are now by their long standing and great experience necessarily become very influential in the management of the affairs of the Bank; it cannot be supposed that they have voluntarily repudiated their own law. The whole body of Directors, there is every reason to believe, approved and adopted the rule; we cannot suppose that they, having embarked on their voyage with a compass specially constructed by themselves for their safe guidance, have subsequently determined to steer a course in opposition to its direction. The only rational conclusion to which we can come, is, that the Directors are over-powered by a pressure from without which they cannot resist, and are driven from their intended course by the force of circumstances which they find themselves unable to control. What then is the nature of this pressure, and whence does it arise? To solve this question satisfactorily, it is necessary to have more detailed information. A classified statement of the securities would show in what branch of the securities the increase has taken

place, and thus probably afford some valuable indications as to the quarter in which the true cause of the increase is to be found. In the absence of this information we can only reason upon general considerations.

In addition to the difficult task of regulating the circulation of the country, there are various other duties which custom, sanctioned by public opinion, has imposed upon the Bank. Amongst these the most prominent are, to supply the periodical wants of the Government for the payment of the dividends, and in periods of emergency "to uphold public and private credit when called upon."

During the past year it is well known that the Government has been exposed to the double action of a deficient revenue and an increasing expenditure; under such circumstances the aid which it invariably requires from the Bank to enable it to discharge its fixed periodical payments we may presume must have been unusually large. This may possibly account in part for the increase in the securities of the Bank. At the same time it will afford no justification of them. In undertaking to make the increased advances to Government, the Bank necessarily subjects herself to the obligation to realise some other class of her securities, for the purpose of preventing an undue increase in the general amount of her liabilities. The advance ought to be made from the resources of her banking department, and not from those which arise out of

her control over the paper issues. If this be not done, the Government is placed in the situation of a party calling upon the Bank, with an authority which amounts to a command, to depart from the course which duty prescribes to her, and to violate those rules, a rigid adherence to which is essential for maintaining the convertibility of her notes. At all events, the increasing demands of Government upon the Bank, at a period when a decrease of her circulation is become a matter of vital importance, must give rise to very serious reflections.

It was observed by Mr. Ricardo in his pamphlet, "High price of bullion proof of depreciation of Bank-notes," that "It was owing to the too intimate connection between the Bank and Government that the restriction became necessary; it is to that cause too that we owe its continuance." From the same cause also, in all probability, the danger to which our monetary system has been recently exposed has in a great degree arisen.

The profit to be derived from a paper circulation legitimately belongs to the Government; and a permanent advance to it of a fixed sum, as representing that portion of the circulation which is beyond the reach of fluctuation, is an arrangement to which no valid objection can be urged. But inconvenience, and even danger, may arise from the custom which subjects the Manager of the circulation to the obligation of supplying those periodical wants of

the Government, which are liable to considerable variations in amount, and which are usually largest, at those periods when general considerations demand a decrease and not an increase of the circulation. “ Experience shows how little the “ Bank Directors have been able to withstand the “ cajolings of Ministers ; and how frequently they “ have been induced to increase their advances in “ Exchequer-bills and Treasury-bills, at the very “ moment when they were themselves declaring “ that it would be attended with the greatest risk “ to the stability of their establishment and to the “ public interest. \* \* \* \* \*

“ If Government wants money it should be obliged to raise it in the legitimate way ; by taxing “ the people ; by the issue and sale of Exchequer- “ bills, by funded loans, or by borrowing from any “ of the numerous banks that might exist in the “ country ; but in no case should it be allowed to “ borrow from those who have the *power of* “ *creating money.*”—*Ricardo.*

VI. The obligation on the part of the Bank to uphold public and private credit when called upon, is a subject which requires very serious consideration. This extraneous support to credit will be most required in periods of commercial pressure, and under those circumstances which are the necessary and direct results of a contraction of the circulation. The Bank seems thus called upon to act in

a circle ; a decrease of bullion requires a decrease of issues ; decreased issues produce commercial pressure ; in consequence of which, public and private credit is shaken ; and then arises the obligation of the Bank to interpose for its support. This interposition must necessarily assume the form of an increase of discounts, and hence a second class of securities, which, in a period of pressure, instead of being diminished must be increased.

Upon this subject, the power of contracting the circulation by diminishing the amount of discount during an efflux of bullion, a great change of opinion has taken place, the progress of which it is not a little curious to trace.

We have already observed that the Court of Directors in 1819 considered the repayment of a large portion of the advances made by the Bank to the Government, as essentially necessary preparatory to the resumption of cash payments. The reason for this demand, assigned by the Directors and acquiesced in by the Legislature, was, that over the notes issued in the form of advances to the Government, they had not practically the same control as they have over notes issued in commercial discount. " An issue of Bank paper upon Government security is beyond the control of the Bank ; an issue upon commercial bills is always within the power of the Bank."—*Mr. Dorrien, the Governor's evidence, p. 32.* This view was sanctioned by Mr. Haldimand, a younger Director than Mr.

Dorrien, and who in his evidence maintained very different and more enlightened opinions upon the general question of the management of a paper circulation. He states, " I have no hesitation in saying that had the Bank the control over the whole of its issues, or in other words, were the whole or nearly the whole of its paper issued upon commercial discounts, by diminishing such issues it might pay its notes in specie within the most limited period, and with the most perfect safety to itself."—*p. 43, q. 31.*

These opinions, emanating from the Bank Directors, were adopted and sanctioned by the Parliamentary Committees before which they were given. " The issues of notes upon discount revert to the Bank at periods so short, that any reduction of the paper so issued, which circumstances may render necessary, is always within their reach ; with this control over their issues, they are enabled to feel their way, and to restrict or enlarge them, either as the wants of the country may permit or demand, or as the state of the exchanges and the price of gold may appear to require."—*Lords' Report, p. 10.*

The abstract possibility of contracting issues by an absolute refusal to discount cannot be doubted ; the real practicability of such a step as a measure of business is, however, much more questionable ; and had the Parliamentary Committees of 1819 put the question to any experienced

banker, whether, in a period of commercial pressure, he considered it possible to reduce the amount of his discounts, the answer would probably have led them to a more correct view of this subject. Let us now contrast with the opinions we have quoted, the evidence given by the Directors of the same concern thirteen years afterwards.

### Mr. Horsley Palmer's evidence :—

“ Do you not hold that the discount of private paper is one of the worst means which the Bank, as a bank of issue, can adopt for regulating its notes ? ” “ Yes, provided they are adequately supplied with other marketable securities.”—q. 173. Again, “ It is not deemed to be desirable to attempt to regulate the amount of issues of the Bank in London through commercial discounts, but there are occasions and circumstances when the functions of the Bank, as a bank for commercial discounts in the capital, have been and ever must be of the first importance to the country ; ” and at the close of the same answer it is stated, that “ to be compelled to limit the quantity or description of bills to be tendered for discount, either of these measures would be equally detrimental to the commerce of the country.”—See *question and answer* 477, p. 36.

Mr. Ward is asked in what way he would shorten the amount of currency in preparation for an expected turn in the exchanges against the country.

“ I have always endeavoured that the Bank should be possessed of a certain number of securities coming in to it, so that a discretion should be exercised as to whether we should issue it again ; the Dead Weight, the Annuities, bring in a consi-

" derable excess annually, and I should withhold the re-issuing  
 " of those moneys; I should not make a forcible operation by  
 " disappointing any person of discount," &c.—*q.* 2088, p. 145.

Mr. Norman :—

" Are you of opinion, supposing a large quantity of commercial paper could be obtained for discount in London, it would be desirable for the Bank of England to regulate its issues upon commercial paper solely, or would it be preferable to regulate them by Exchequer-bills?" " I certainly think, that if the issues were to be regulated one way or the other, I should much prefer Exchequer-bills. Under present circumstances, I consider it quite impossible, without at times doing immense mercantile mischief, to regulate them by discounts. The Usury Laws alone are quite decisive on that point."—*q.* 2429, p. 170: and subsequently, in the course of reply to another question, he observes, " I consider the attempt to reduce discounts in general, by rejecting the bills of any particular persons, as a plan likely to fail, and to be productive of great public inconvenience, and that it ought never to be adopted except in cases of the very last necessity."—*q.* 2437.

These are evidently the answers of intelligent persons, convinced by general reasoning, and confirmed in this conviction by the results of their experience, that the contraction of issues made upon discounts is, in times of commercial pressure, impracticable; that is, that the attempt to accomplish it would inevitably produce " immense mercantile mischief," equal almost to the evil which it was intended to avert.

We thus find the Bank, in the first instance calling for the repayment of her advances to the Government, that she may have her issues more com-

pletely under her own control, and looking to her advances upon discount as the means for acquiring this power. We next find her convinced that the control she seeks cannot be obtained through that means, and almost admitting that an increase, rather than a decrease, of her issues upon discount, must be the consequence whenever commercial pressure occurs, and she is called upon to fulfil her obligation of supporting public and private credit.

Is not this an acknowledgement on her part that her connection with the Government, and also with commercial affairs, subjects her to demands which she finds it impossible to resist, although they are incompatible with the due regulation of her issues? To these causes, we can hardly doubt, the increase in her securities and the perilous position in which she has recently stood are mainly attributable; and it seems unreasonable to expect a steady and consistent course on her part, until she is released from these improper influences, and placed in such a position that she can regulate her conduct with reference to no other consideration than that of maintaining the convertibility of her notes. How is it possible that the proper relation between the paper-issues and the bullion can be steadily maintained, whilst the Bank is liable to be compelled to issue upon her deposit-accounts, upon the discount of commercial bills, and for the supply of the public wants of Government? The consequence of uniting these, which are strictly banking ope-

rations, with a power of regulating the amount of the currency, which is a duty of a very different character, must be embarrassment to the party in whom these conflicting functions are united, and ultimately an abuse of the power which is entrusted to her. The public, looking to her as a great banking company, and estimating the duties incumbent upon her by reference to her character in that respect, hold her responsible for relieving commercial distress and upholding public credit. She finds that it is extremely difficult, as well as unpopular, to refuse the demands which are made upon her ; and, therefore, easily convinces herself that it is impossible. She yields to the force of these demands, and not distinguishing between an advance of capital to merchants and an additional supply of currency to the general mass of circulating medium, she applies to the satisfaction of them, not her banking resources only, but also her power over the currency.

The state in which the Bank has recently stood is the result. The circulation but slightly diminished and the securities largely increased—whilst the drain upon the bullion has been suffered to acquire such force, and to proceed to such an extent, as to menace the most serious danger to the safety of our monetary system.

Having quoted the opinion of the late Mr. Ricardo upon the impropriety of subjecting the manager of the currency to the necessity of supplying the

demands of the Government; we may here quote an equally strong opinion by a living authority of great weight respecting the danger to be apprehended from too intimate a connection on her part with the wants of trade and the support of credit.

“ The old, and it was to be hoped the obsolete, “ doctrine, has been revived and insisted upon, “ that the Bank is bound in the regulation of its “ securities and issues to attend to the accommo- “ dation of trade and the support of credit. Under “ the influence of this doctrine, there can be no “ security for the maintenance of a sound ad- “ ministration of the currency. There is no degree “ or extent of deviation from principle to which “ such doctrines may not serve as a cloak. And “ either the bias of private sympathies, or the “ notion, sincere, though ill-founded, of being “ called upon to interfere for the accommodation of “ trade or the support of credit, may, under a “ variety of contingencies compromise the prin- “ ciple, which ought to be held sacred, of the “ convertibility of the paper.”—*Tooke's History of Prices*, vol. ii. p. 342.

The disturbance in the management of the circulation, which arises from the connection of the Bank with the Government and with the trading operations of individuals, is not an evil of recent origin. As it arises from circumstances connected with the very constitution of the Bank, it might reasonably be expected, that it would develope itself in an

early stage of the history of the concern ; and such was the fact.

The Bullion Report of 1810, speaking of the Bank of England "within a very short period after its first establishment," states "by the liberality of the loans to private individuals, as well as by the large advances to Government, the quantity of the notes of the Bank became excessive ; their relative value was depreciated, and they fell to a discount of 17 per cent." The effects of these disturbing influences have strongly characterized the proceedings of the Bank from that time to the present day ; nor can we reasonably anticipate any other result, until the confusion of functions, out of which the evil arises, shall have been effectually corrected.

VII. With the view of strengthening the hands of the Bank, and enabling it to check the otherwise irresistible demand for increased issues upon discount, the Usury Laws, so far as they affected the rate of interest charged upon discount of bills, have been repealed ; and great benefit has arisen from this measure. It is difficult to say to what extremity the Bank would have been reduced at the present moment without this protecting power ; even when thus armed, a reduction of her issues upon discount appears to be beyond her power, and all that she has accomplished in the present case, and probably all that she ever can effect by raising the rate

of interest, is to check that further increase of issues upon discount which would otherwise be the immediate effect of a reduction of issues by the sale of other securities ; and at the same time to afford to the trading world a timely warning of the danger which is at hand.

The partial repeal of these laws, however, has been of incalculable advantage to the commercial community, by securing the free circulation of capital, and the power, by the inducement of higher interest, of determining the application of it to those quarters in which the demand for it may be most intense. This is the true source from which support to public and private credit in periods of emergency ought to be sought, and from which it will be obtained, more legitimate in its character and more effectual for its purpose, than that which is derived from an improper tampering with the circulation. Of this recent circumstances have afforded a striking illustration. It is hardly necessary to detail the circumstances connected with the assistance lately afforded to the Agency of the United States' Bank. In a pressing emergency application was made to the Bank of England for assistance to avert a contingency which it was deemed would be deeply injurious to the commercial and manufacturing interests of this country, as well as to the general state of public and private credit. The appeal was responded to by the Bank, and aid to the extent of

£300,000, to be repaid in one month, was offered. This however was wholly insufficient for the purpose ; and it was determined to try the effect of an appeal to the private capitalists of the country. The result is well known ;—by offering an adequate inducement, capital was drawn forth, even in a period of extreme pressure, for the support of this concern, to the extent of £800,000 for an almost unlimited period.

It is impossible to blame the Bank for the limited extent of the aid which it tendered ; it may indeed be difficult to justify it, under the circumstances in which it was then placed, in going so far. But the contrast is striking ; and whilst it proves the limited power of the Bank to discharge its assumed duty of supporting credit, it affords most satisfactory evidence of the unlimited means for this purpose which exist in the country, and which may now be called forth, according to the extent of the emergency. In confirmation of this view, it is satisfactory to be able to quote the high authority of Mr. Ricardo, who observes, “ a great deal of stress “ has always been laid upon the benefits which “ commerce derives from the accommodation af-“ forded to merchants by the Bank. I believe it to “ be quite insignificant compared with that which “ is afforded by the private funds of individuals.”

It was essentially necessary that the alteration of the law, by which all artificial obstructions to the

free distribution of capital have been removed, should precede any attempt to separate the management of the circulation from the ordinary banking operations with which it is at present too closely united. And as it was necessary as preparatory to this change, so will it be found to be the means of obviating many of the difficulties, and alleviating the inconveniences which may be apprehended as consequent upon such an alteration, when it shall take place, in our monetary system.

One further remark may be made upon this subject. The inducement offered, in the case to which we have alluded, was great ; because it required a strong temptation to induce capitalists to direct their resources to that quarter, whilst the object to be gained was worth a high price. Had the same rate of interest been charged to a small dealer in a transaction of limited extent, we should have heard much of the harshness, extortion, and injustice perpetrated under the repeal of the Usury Laws. This example, however, as well as general reasoning, may teach us to recognize the policy, as well as the justice, of leaving every man free to judge of his own interests, and to decide for himself the price, which it may be worth his while to pay, for obtaining a certain advantage, or for protection against an apprehended danger. The unexampled firmness with which the pressure under which the trading world is still suffering, has hitherto been supported,

is probably attributable to a combination of causes ; but there can be no doubt that the free circulation of capital, resulting from the modified repeal of the laws by which it was restrained, has materially contributed to this result. Happily in this case, as in most others in commercial affairs, where there is free competition, the interests of the community and that of the individual are never at variance.

### CHAPTER III.

#### *On the effect of the Country Banks and Scotch Banks as Banks of Issue.*

I. In any discussion which has reference to the condition of the circulation of the country, the conduct of the country issuers, and the course pursued by them; during the period under review, must necessarily claim our attention. The Legislature has imposed no restraint upon the proceedings of these parties, nor are their issues subjected to any principle by which the amount of them may be regulated. To retain an adequate amount of realizable securities, which can at any moment be converted into the notes of the Bank of England, is the only obligation under which they are placed ; whilst upon the Bank of England alone is thrown the necessity of providing the specie which may be requisite for meeting the demands of the whole country : those demands which arise from the holders of the local notes, equally with those which arise from her own circulation. Under these circumstances, a limitation of the amount of the local issues must be the result, either of prudential considerations on the part of the issuers, or of the

influence *necessarily* exerted by the action of the Bank of England over their measures. It is important to ascertain how far the country issues are by these means subjected to an efficient regulation.

Let us look at the quarterly returns of the last two years.

### *Circulation of Private and Joint-Stock Banks.*

Aggregate of Circulation in 3 months ending	Private Banks.	Joint-Stock Banks.	Total.
	£	£	£
31st Dec. 1837 ..	7,043,470	3,826,665	10,870,135
31st Mar. 1838 ..	7,005,472	3,921,339	10,926,511
30th June , ..	7,383,247	4,362,256	11,745,503
30th Sept. , ..	7,083,811	4,281,153	11,364,964
31st Dec. , ..	7,599,942	4,625,546	12,225,488
30th Mar. 1839 ..	7,642,104	4,617,363	12,259,467
30th June, , ..	7,610,708	4,665,110	12,275,818
30th Sept. , ..	6,917,657	4,167,313	11,084,970

It will be observed that the country issues continued to increase in amount through the whole of the year 1838, and until June 1839. In the following quarter there is a sudden and large decrease. At what period of the quarter that decrease commenced we have no means of knowing; such is the effect of average returns, especially when the average extends over a long period, in concealing the precise time and extent of the fluctuations, from which alone, in many cases, any useful inferences

can be drawn. The drain upon the bullion of the Bank commenced in the early part of 1838, and continued in gentle action through the whole of that year. At the commencement of 1839 the drain became severe and continued till October. It is clear, therefore, that from the commencement of 1838 till the middle of 1839, there has been no action on the part of the country issuers, corresponding to the fluctuations of the bullion; but quite the reverse. The country issues continued to increase largely, notwithstanding a constant and heavy drain upon the bullion. About this latter period the Bank of England began to raise the rate of interest; first to 5 per cent. and then to  $5\frac{1}{2}$  per cent. in June, and again to 6 per cent. on the 1st of August; and in the quarterly return following these measures we find a large and sudden diminution of the country issues. What are the inferences to be drawn from these facts? First, we find that an unfavourable state of the exchanges, indicated by a continuous decrease of bullion, does not restrain, but apparently rather tends to augment the country issues. Secondly, we find the Bank of England under these circumstances compelled to resort to what are deemed by many persons severe measures, in the successive advances of the rate of interest; and subsequent to this action on the part of the Bank, as the effect of it and not as acting concurrently with it, we find a large decrease of the country issues. Thirdly, this

decrease is too long delayed, and when it does occur it is sudden and violent. The commencement of the decrease cannot have occurred before the month of June, 1839, fifteen months after the commencement of the decrease of bullion, and six months after the drain had become very severe. The amount of the decrease in the first quarterly return after its commencement is £1,200,000, or about one-tenth of the whole amount of the country issues. With these facts before us, can we doubt that experience amply confirms what general considerations would lead us to expect, viz. that a multiplicity of issuers, subject to no general rule for their guidance, must tend to disturb the due regulation of the currency?

In the commencement of a drain of bullion their issues are augmented instead of being decreased, and thus the counteraction of the drain is delayed, and the measures for correcting it are rendered more severe, than would otherwise have been necessary ; and again, when by these measures contraction on their part has been rendered unavoidable, their undue tardiness in commencing the contraction is followed by a dangerous rapidity and violence in carrying it out. Had the country issuers commenced their contraction in April 1838, when the bullion first began to diminish ; or in October, when contraction on the part of the Bank of England first commenced, the serious danger to which the mone-

tary system of the country has been exposed might very possibly have been altogether avoided. At all events, such a course on the part of those bodies would have tended to facilitate that rectification of the currency which, under an opposite course of procedure, it has been found so difficult to effect; and at the same time it would have given some sanction to the doctrine that the country issuers necessarily and immediately conform in their fluctuations to those of the Bank of England.

II. These views respecting the limited extent of the power which the Bank of England possesses over the conduct of the country issuers, we are aware, are in some degree, opposed to a doctrine upon this subject which has been countenanced by the highest authority. In the Report of the Committee of the House of Commons of 1819, it is observed, “ There may be reason to infer from the “ the opinion of the witnesses most conversant with “ the management of Country Banks, and to whose “ evidence your Committee beg leave to refer, that “ a reduction in the amount of the notes issued by “ the Bank of England would speedily and neces-“ sarily be followed by a proportionate reduction of “ the Country Bank paper.” This opinion is given, however, incidentally, and rather upon the authority of statements made by some of the witnesses, than as the deliberate conviction of the Committee.

The same doctrine had been previously propounded in a more distinct and formal manner by an authority, of which it is impossible to speak but in terms of the highest respect, the late Mr. Ricardo. The point is discussed in his admirable tract “The high price of Bullion a proof of the depreciation of Bank Notes,” in which he observes, “The Bank of England is the great regulator of the country paper. When they increase or decrease the amount of their notes the Country Banks do the same, and in no case can Country Banks add to the general circulation, unless the Bank of England shall have previously increased the amount of their notes.” At a later period Colonel Torrens, than whom amongst living authorities no one is entitled to more attention, has added the weight of his opinion to this doctrine. He contends that the Bank of England “has uncontrolled dominion over the circulation of the kingdom, and that when they decree a contraction of the currency, the provincial banks of issue, instead of resisting, obey and suffer.”—*Letter to Lord Melbourne, 1837*, p. 48.

It is contended in support of their view, by the authors above quoted, that the contraction of the circulation of one issuer, whilst that of the other issuers in the same country remains unchanged, produces an increased value of money, and a corresponding fall of prices, in the district in which it

takes place ; that hence arises a disturbed state of the exchange between that and other districts ; in consequence of which, money is drawn from those other districts to that in which its value has been raised ; that to effect this remittance of money, the notes circulating in the districts in which the circulation has not been contracted, are sent in to the issuing banks, and bills demanded in exchange for them upon the district in which the contraction has taken place ; and that by this process, a corresponding contraction of issues in those districts is inevitably brought about.

This doctrine involves two assumptions. First, that the district in which each issue circulates is completely separated, so far as circulation is concerned, from the rest of the country, and especially from the district in which the central issue circulates, as completely as one country is separated from another.

Second, and this is the more important consideration, that the effect produced by the process described, follows immediately the action of the cause ; so that no period intervenes between the action of the central issuer, and the corresponding effect upon the country issues, within which phenomena of an opposite character may arise, and effects corresponding to those phenomena be produced.

In each of these assumptions there seems to be a fallacy involved.

The paper issues of this country are not like the currencies of different countries ; each in the undisputed possession of its own district, beyond the reach of interference, and subject to no other influence than that which arises from variations in its own amount, or from the operation of the general law, by which the equilibrium is ultimately established between the currencies of different countries. They are, on the contrary, *competing* issues ; each endeavouring to encroach upon the other, and to appropriate to itself, at the expense of its competitors, a larger proportion of the whole circulation of the country.

Although the Bank of England is protected from the effect of competition as regards the supply of paper-money in the metropolis, still an important portion of her issues circulates in the country, and is exposed to the competing action of the country issuers. The efficiency of her controlling power is thus impaired, and the period of accomplishing its results is delayed.

“ There is of course always a contention between  
“ the Country Banks and the Bank of England to  
“ fill as many districts as they can with their re-  
“ spective notes.”—*Ricardo's Evidence, 1819.*

Hence it arises, that an expansion by one issuer may very naturally lead to a corresponding expansion by the other issuers ; such is the legitimate result of competitive action ; but it by no means follows, that similar results will ensue when the action is in the opposite direction.

In the case of the contraction of the paper circulation of any given country, the void created by that contraction cannot be filled up by a corresponding increase of the paper issues of any other country ; the contracted circulation must produce its legitimate effects in enhancing the value of money, and lowering prices in the country in which it takes place. But the case is different with respect to a contraction of issues, by one amongst many issuers in the same country. Here the void created by the contraction of one, may be simultaneously filled up by the expansion of another ; and the alteration in the value of money and in prices be prevented, or at all events materially delayed. This is the consequence of the competing character of the issues in the same country. The desire to extend his own issue is the motive of each issuer ; this motive will lead each party to meet an expansion of issue on the part of others by a corresponding expansion on his own part ; but it will also lead him to look upon contraction in any quarter as a favourable opportunity, not for contracting, but for expanding his own issues, with the view and in the hope of possessing himself of the ground from which his rival has receded.

When the central issuer contracts his issue, the effect is felt, principally, perhaps, but not exclusively, in the circle which immediately surrounds that centre ; a scarcity of money and a pressure upon trade is felt throughout the country. The

local issuer, in the first instance, meets this, not by a corresponding contraction, but by an increase of his issues. He is induced to resort to this course by several considerations ; first, such increase of his issues is a ready relief to himself, under the tightness of money, (to use the common expression,) which the action of the central issuer has produced ; second, it enables him to extend his accommodation to his customers, at a time when it is most wanted, and the tender of it is most valued ; third, it affords him some probability that he may be enabled to occupy permanently with his issue, that portion of the circulation, at least in his immediate neighbourhood, which has hitherto been filled by the notes of the central issuer. These are not mere theoretic suppositions ; we have little doubt that these motives are constantly in action, and exerting a practical influence over the conduct of the country issuers. They explain that phenomenon, the constant occurrence of which is proved by the published returns, viz. an increase of country issues, immediately following the commencement of the drain of bullion, and the first contraction of the central issuer.

When, however, the central issuer, by a steady prosecution of his system of contraction, has produced, not only the numerical reduction of his notes, but the more important moral results, which are evidenced by the shock given to confidence and credit ; when in fact he has succeeded in effectually

restraining the “credit currency” of the country, then the country issuer, in common with all parties engaged in monied or commercial operations, submits to this influence; and in proportion as his first steps had been in the wrong direction, so his subsequent retreat is sudden and rapid.

We thus arrive at the explanation of the second phenomenon, equally verified by the published accounts, viz. the tardy, but when it arrives, the abrupt and violent reduction of the country issues.

When contraction of the general circulation of the country becomes necessary, the country issuers, it must be observed, do not at once unite in a common action with the central issuer, and thus become joint-agents with it, in producing the requisite effect upon commercial operations; they rather belong to the party acted upon, and the reduction of their issues, like the contraction of credit and the fall of prices, is an effect produced by the action of the central issuer; and not, as it ought to be, a voluntary procedure, springing up simultaneously, and acting in concert, with the contraction of the central issuer. “When the Bank of England,” says Colonel Torrens, “decrees contraction, the country banks of issue, instead of resisting, obey and suffer.” It would have been more consonant, as we conceive, to the real course of events, had he said, the country banks of issue

first resist, then suffer, and, in the end, submit. (See Appendix B.).

The effects produced, during the intervening period, between the first action of the central issuer, and the ultimate submission by the country issuers to the course imposed upon them, are very important, and call for our serious attention. The country issues, no doubt, are based upon those of the central issuer, and must ultimately conform to them ; but, previously to that result, a struggle ensues, by which the monetary system, generally, is exposed to confusion and danger, and the corrective measures of the central issuer are rendered more stringent and severe than they would otherwise have been.

III. As this is a point of considerable importance, and any attempt to controvert an opinion sanctioned by the authority of Mr. Ricardo and Colonel Torrens, requires all the support which can be given to it, we must request the attention of our readers to one or two practical illustrations of deviation, on the part of the country issuers, from the course pursued by the Bank of England.

In the evidence given by Mr. Ward, before the Committee of 1832, we find this statement. “ I “ always believed, in Mr. Horner’s time, that his “ principle was completely right ; and, from being “ connected with the exchanges, I was able to see

" many practical circumstances which tended to  
 " shew that the fact was so ; but with regard to  
 " the Bank, over and over again, they found the  
 " practice wrong in their estimation, because the  
 " exchanges did not follow the Bank of England  
 " circulation ; but they did not know what the  
 " country circulation was then, and it was not till  
 " the year 1819 that we got a good account of the  
 " country circulation, and then we found, that put-  
 " ting the two together, it gave a very different  
 " account." (p. 143, Q. 2074.)

Had it been true, that " when the Bank of Eng-  
 " land increases or decreases the amount of its  
 " notes, the country banks do the same," the fact  
 here stated by Mr. Ward could not have occurred.  
 The exchanges must in that case have followed the  
 Bank of England ; and the putting together of the  
 two, Country and Bank circulation, could not have  
 given a different account from that which was ob-  
 tained from a statement of the Bank circulation  
 only. We have, in this statement, distinct testi-  
 mony to the fact, that the action of the Bank of  
 England was over and over again counteracted by  
 the country issuers ; to the extent even of pre-  
 venting the action of the Bank of England from  
 producing its proper effect upon the exchanges.

Again, in 1835 and 1836, we have an example of  
 an increase of the country issues accompanying a  
 decrease of those of the Bank. The circumstances

of this case cannot be so well stated as by quoting the words of Mr. Norman in his very instructive "Remarks on Currency and Banking."

By a table to which he refers, it appears that Bank of England circulation was—

in Sept. 1835,	£17,320,000
in June, 1836,	17,184,000
Decrease . . . . £	136,000

Country bank circulation was—

in Sept. 1835,	£10,420,000
in June, 1836,	12,202,000
Increase . . . . £	1,782,000

Upon this large increase of the country issues, not based upon any corresponding increase by the Bank of England, Mr. Norman observes, "it may be well to direct the reader's attention to the tabular statement, with a view to point out the conclusive evidence it affords, in refutation of the elaborate reasoning of Colonel Torrens, intended to shew that the Bank of England has always the power of controlling the issues of provincial banks, within a period so short as to prevent any derangement in the whole currency. We there see an almost progressive increase in the latter part of 1835, and the first six months of 1836, in the circulation of the joint-stock and

" private banks, while that of the Bank of England had on the whole diminished, and this during a period of time quite long enough to influence prices, and cause great mercantile mis-calculations.

" It is very true that convertible paper cannot permanently be depreciated, that it must at length become equivalent to the specie it represents; but under certain circumstances the adjustment may be long deferred."

A similar contrariety of action on the part of the Bank and the country issuers occurred again, in a still more marked and striking manner, in the two last years; to which we have already directed the attention of the reader.

IV. A speech, delivered in the House of Commons on 8th July last by Mr. Hume, has been printed and circulated, the principal object of which is to prove that the great variations which have occurred in the value of the currency, and the severe pressure on the money-market in 1825-6, and again in 1836-7, are *wholly* owing to the mismanagement of the Bank; and that great blame has been unjustly cast on the other banks of issue, attributing to them those derangements of the currency which have been caused by the over-issues of the Bank of England. Annexed to that speech is a table of the liabilities and assets of the Bank, and, also, a statement of the circulation of private

and joint-stock banks, from an examination of which the following facts are derived :—

BANK OF ENGLAND.

Highest circulation, Oct. 1833 £19,823,000

Lowest ditto, Jan. 1836 17,262,000

Greatest amount of fluctuation £ 2,561,000 or about 14 per cent.

COUNTRY ISSUES.

Highest circulation, June 1839 £12,275,000

Lowest ditto, Sept. 1837 10,142,000

Greatest amount of fluctuation £ 2,133,000 or about 20 per cent.

It thus appears that the maximum of fluctuation in the circulation of the Bank of England is considerably less than the maximum of fluctuation in the circulation of the country issuers.

But the fluctuation of the country issuers not only exceeds that of the Bank of England in extent, it also acts in the opposite direction to it.

Bank of England Issues, September, 1834....	£19,126,000
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Ditto June, 1836....	17,899,000
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DECREASE of Bank Issues from } Sept. 1834, to June, 1836 }	£1,227,000
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Country Issues, September, 1834 .....	£10,154,000
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Ditto June, 1836 .....	12,202,000
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INCREASE of Country Issues from } Sept. 1834, to June, 1836 }	£2,048,000
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Again,

Bank of England Issues, September, 1838.....	£19,665,000
Ditto                June,                1839.....	18,101,000
DECREASE of Bank Issues from }                .....	£1,564,000
Sept. 1838, to June, 1839 }	
Country Issues, September, 1838 .....	£11,364,009
Ditto                June,                1839 .....	12,275,000
INCREASE of Country Issues from }                .....	£911,000
Sept. 1838, to June, 1839 }	

Here are two striking instances of continuous increase of issues by the country issuers, during a period when the Bank issues had been contracted. And it must be further observed, that the highest amount to which the country issues have ever been carried was in June, 1839 ; a period of unfavourable exchanges, of heavy drain upon the bullion, and when every consideration required a diminished, and not an augmented, amount of circulation.

But furthermore, the periods at which the circulation of the Bank of England and of the country issuers attain their maximum and minimum points have no tendency to coincide, as they ought to do, and as they would do, under a sound system of managing the circulation.

Maximum Circulation of Bank of England,	
October, 1833 .....	£19,823,000
Ditto of Country Issuers, June, 1839.....	12,275,000

Again,

Minimum Circulation of Bank of England,	
January, 1836 .....	£17,262,000
Ditto of Country Issuers, September, 1837..	10,142,000

We will allude only to one further fact derived from these tables. The minimum circulation of the country issues was in September, 1837, and they reached their maximum in June, 1839.

Country Issues, September, 1837 .....	£10,142,000
Ditto          June,          1839 .....	12,275,000
Increase .....	£2,133,000

This large increase of issue on the part of the country issuers must of course have taken place in obedience to the controlling power of the Bank of England ; she must have decreed increase of issue and they must have obeyed. What are the facts of the case ?

Bank of England Issues, September, 1837 ..	£18,814,000
Ditto          June,          1839 ..	18,101,000
Decrease.....	£713,000

The Bank, it appears, decreed *diminution* of issue, and her country subjects replied by a large *increase* of issue !!

But what during this period was the state of the

bullion, by which all paper issues, Country as well as Bank of England, ought to be regulated ?

Bullion, September, 1837 .....	£6,303,000
Ditto June, 1839 .....	4,344,000
Decrease .....	£1,959,000

It thus appears that between the month of September, 1837, and June, 1839, whilst the bullion suffered a large diminution, and the issues of the Bank of England were certainly not increased, the Country Banks augmented their issues full 20 per cent.; having, during this very period, carried them from a point of extreme depression to an amount higher than they had ever before attained.

These facts are irreconcileable with the doctrine which maintains that the Bank of England has uncontrolled dominion over the circulation of the country; and unless they can be disproved, it is unreasonable to attribute the derangement of the currency *wholly* to her mismanagement.\*

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\* When a derangement of the circulation took place on a former occasion (1837) and was attributed entirely to the misconduct of the country issuers, the writer, in a pamphlet published by him at that time, endeavoured to show that the Bank of England had not regulated her issues with that strict regard to principle which would warrant her in throwing the blame entirely upon other parties. The charge is now directed to the opposite quarter; and in reply to it he has endeavoured to show that the conduct of the country issuers has not been of that unexceptionable

That the Bank of England is liable to the charge of undue delay in commencing the contraction of her issues, and of the want of sufficient firmness in making that contraction correspond to the extent of the drain upon her bullion, we are not disposed to deny ; indeed we have been amongst the foremost in maintaining this doctrine. At the same time we cannot exonerate the system upon which the country issues are established, from its fair share of blame ; and that, we think, must be admitted to be considerable, when it is shewn that the country issues fluctuate in amount to a greater extent than those of the Bank of England, and that in critical periods they have increased, whilst the bullion and the issues of the Bank of England have been in course of reduction. “ So long as any individual or set of individuals, may usurp the royal prerogative and issue paper without let or hindrance, so long will it be issued in excess, in periods when prices are rising and confidence high ; and be suddenly and improperly withdrawn, when prices are falling and confidence shaken.”—*M'Culloch's Notes to Adam Smith.*

In our endeavour to ascertain the extent to which

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character which will exempt them from censure, and leave it to fall exclusively upon the Bank of England. Neither party has conformed in the regulation of its issues to the state of the bullion—nor, omitting that consideration, have the fluctuations of the country issuers conformed to those of the central issuer.

the country issues interfere with the Bank of England, and obstruct her efforts to regulate the circulation, we are most anxious to state the case with perfect fairness ; to extenuate nothing, and at the same time to set down nothing against them unjustly. It is therefore a subject of great satisfaction to be enabled to state our own conclusions in the words of a writer, whose authority is entitled to the greatest weight, both on account of the extreme care with which he balances conflicting considerations, and the measured and cautious language in which his conclusions are stated. " It may be remarked of this portion of the circulating medium, (country bank paper,) that supposing it to bear for local purposes, a certain due proportion to the basis of the currency, the deviations from this its due level have been, not only during, but before and since the restriction, very considerable, expanding under circumstances, and in a state of opinion, favouring a rise of prices, and collapsing under the opposite circumstances ; and these expansions and contractions have, in the majority of instances, not been preceded by any corresponding variations of the Bank issues, although eventually they have come under the limitation and control of the Bank regulation." — *Tooke's History of Prices*, vol. i. p. 148.

V. Upon this branch of the subject it is necessary to keep in view the important distinction between

the vices of a system, and the misconduct of those who administer that system. The one is often confounded with and mistaken for the other ; in consequence of which, injustice is done to individuals, and remedial measures, being misdirected, lose their efficiency. The system of our country issuers may be deserving of all condemnation, whilst the individual conduct of the issuers may be no just subject for censure. Law, it has been said, is the educator of nations ; and certainly in the case before us the course pursued by a highly respectable and important class is the natural, we might even say the necessary, result of the laws under which they act. The legislature has given to the country issuers the formidable power of creating money, and at the same time has opened before them the whole field of private interest in which to exercise that power ; it has laid down no rule to guide them in the right course, nor any motive to induce them to follow it. When individuals pursue their own interests, without violating the laws of their country or the just rights of their neighbours, they are beyond the reach of censure ; and if in this natural and legitimate course of procedure their measures militate against the public interest, the fault rests not with them, but with the laws within whose limits and under whose sanction they are acting ; it is by reforming the latter and not by dealing out censures against the former that the true remedy must be sought. The most stern maintainer of the doctrines

of the Bullionists, if placed in the same circumstances with the country issuers, would act as they have acted. Their measures are the result of principles common to human nature under all circumstances, and which it is the appropriate business of wise legislation so to control and direct as to render them productive of public as much as of individual advantage. When this result is not attained, we are necessarily involved in the dilemma of being obliged to blame the acts, whilst we can find no just fault with the agents. We "love th' offender" " yet condemn th' offence."

VI. The state of the circulation in Scotland is often referred to, as affording a striking example of the advantages of a well-managed currency, obtained through the system of multiplied issuers, all acting upon equal terms and independently of each other. It is to this case the advocates of competition for the regulation of a paper currency usually appeal; conceiving that it presents a practical demonstration of the soundness of their views.

The magnitude of the Scotch banking companies and the limited number of them; the great respectability of the parties engaged in the management of them; the abundant resources which they are well-known to possess; and the successful career which they have long pursued; all these circumstances combine to secure, and justly so, to these establishments, a high reputation as banking concerns.

Prudence in the conduct of their business, and ample security for the safety of all their transactions, and especially for the solidity of the paper money which they issue, are, beyond all doubt, characteristics highly creditable to the Scotch system of banking. In these respects, as far as regards Credit, Prudence, and Wealth, the Scotch banks present themselves to the public eye, in a drapery at once gorgeous and attractive ; but when we come to examine the internal machinery of them, not as banking establishments, in which respect they are unexceptionable, but as managers of the circulation of that country, possessing the power of regulating and controlling the amount of the paper issues, we much doubt whether they will be found to be free from those vices which attach generally to all systems, involving a multiplicity of issuers.

In one respect, and that a very important one, the Scotch issuers are similarly circumstanced with the country issuers in England.

They are not subjected to the necessity of providing gold on their own account to meet their issues. That obligation as regards the Scotch circulation devolves exclusively upon the Bank of England, as much as it does with respect to the local issues of this country. It is only necessary for the Scotch Banks, in common with the country banks of England, to hold a sufficient amount of realizable securities, by which they can obtain a command of Bank of England notes. No farther

duty is imposed upon them ; and if gold is required either in consequence of the state of the foreign exchanges, or of internal demand, upon the Bank exclusively falls the necessity of providing it. Hence the Scotch banks are under no direct obligation to regulate the amount of their issues by reference to the state of the exchanges.

From the rivalship of English issuers, it is true, the Scotch Banks are sufficiently protected ; neither our local notes, nor those of the Bank of England, have any footing in Scotland. A line of demarcation, in this respect, is established by usage and the habits of the people between the two countries ; and the Scotch issuers are subjected to no other competition than that which springs up amongst themselves. To this extent, however, they are to all intents and purposes rival issuers ; anxious each to extend its own issue ; and watchful, lest by want of sufficient activity, any portion of the common field of action should be lost to them, and occupied by a competitor. Is it possible to doubt that under such circumstances, there must exist on the part of the Scotch Banks a constant tendency to expand the circulation of each concern ; subject to no restraint, but that which arises from the operation of those unalterable principles which fix a limit, beyond which the aggregate circulation of the country cannot be permanently extended ?

If in opposition to these general considerations it is contended that the Scotch banking system pre-

sents a peculiar exception ; and that the issues of that country are not subject to those fluctuations which occur in currencies similarly circumstanced elsewhere,—this fact must be established on the part of those who assert it, by some direct and positive proof.

The best evidence would be a periodical statement of the amount of the Scotch issues, similar to that which is now published of the country issues of England. Such a statement would render further discussion needless ; as it would at once shew with what degree of accuracy, both as to time and amount, the fluctuations of the Scotch issues correspond with the variations in the amount of bullion, or of the Bank of England circulation. But to such a test we have no power of appealing.

The next best evidence then is to be found in the general state of trade and steadiness of prices. A better managed circulation, if it exists, ought to evidence itself by its effects, in a more steady and healthy state of things, as regards prices and the condition of trade. We are not aware, nor indeed do we believe that it is ever asserted, that any difference can be traced in these respects between Scotland and England ; the variation of prices is as great, the spirit of speculation is as active, in the trading districts of the one country, as in those of the other ; the commercial storms which occasionally desolate the manufacturing plains of Yorkshire and Lancashire are not arrested in their progress when

they reach the borders ;—Glasgow and Paisley feel their force as much as Manchester and Leeds ;—and in fact all the evils to which a trading community is exposed ; fluctuation of prices, recurrence of commercial pressure, stagnation of markets, losses by insolvency, occur with as much frequency and intensity under the Scotch system of currency, as under that which exists in England.

We have therefore neither the direct proof, which is to be derived from published accounts alone, nor the strong presumptive evidence which might be drawn from an habitually more healthy state of trade, in favour of the superiority of the currency of either country over that of its neighbour.

But we are told that the mode in which the accounts are worked upon the Scotch system, and the exchange of notes by the Banks amongst each other, have a strong tendency to prevent over-issue. What proof, however, is adduced of this assertion ? It looks very like reasoning in a circle. It assumes the goodness of the Scotch system, and upon that assumption as its premiss, it proceeds to found the proof of the thing assumed. It is possible that such a system may have a tendency to check the disturbance of the mutual proportions of the different issuers amongst each other ; but it is not very easy to perceive in what way it can tend to prevent a general tendency of the Scotch issues to run to excess.

The improper fluctuations in the amount of the paper currency of England arise from three circumstances. First, That currency is issued under the influence of competition, which necessarily tends to produce excess. Second, It is issued in the form of advances for commercial purposes. A rise of prices is therefore accompanied by an increase of issues, and a fall of prices by a diminution of issues; and thus greater fluctuations take place than would occur with a metallic currency. Third, The issuers generally are not placed under a direct obligation to provide themselves with the gold requisite to meet the demands upon them, and therefore have no sufficient inducement to look to the state of the exchanges in regulating the amount of their issues. In all these respects the Scotch system of circulation is equally defective with the English ; and no reasonable ground whatever is assigned for supposing that the same causes do not produce in each country the same effects.

The solidity of the paper money in Scotland is perhaps more effectually provided for than in England. Insolvency on the part of the issuers is of less frequent occurrence ; and from this fact, too hasty a conclusion is not unfrequently drawn in favour of the general superiority of the management of the circulation in Scotland. Security for the ultimate solvency of those who issue paper money is confounded with, and conceived to be the same

thing as, security for the due regulation of the amount of that paper money ;—a fallacy very prevalent, and from which the most erroneous views arise. (See Appendix C.) Insolvency on the part of an issuer affects the specific holders of the notes of that issuer, and those only ; but improper fluctuations in the amount of the paper issues affect the whole community in common ; they disturb to a greater or less extent, the steadiness of prices, and the regular movements of trade ; they tend to derange the equilibrium of exchange with other countries ; and if not subjected to timely control, they may endanger the very basis of the whole monetary system of the country in which they occur. The former evil is local and particular ; the latter is general, affecting the whole country and every individual in it. A system therefore which affords protection against the former evil, but contains no unusual or definite provision against the latter evil, must still be considered as defective in the most essential point. This we conceive to be the actual state of the management of the circulation in Scotland ; good, so far as the security of those who hold the notes is concerned ; vicious, equally with the English system, in all that respects the due regulation of the fluctuations in the aggregate amount of the circulation.

VII. This discussion might very naturally carry

us forward to a consideration of the state of the circulation in Ireland ; it is unnecessary, however, to pursue the subject further. The principles which we have discussed, if true at all, are universally true ; and the objections to multiplied and rival issues of paper money are not more applicable to England and Scotland than they are to Ireland. The first determining step of the legislature upon this subject will probably be taken with reference to the latter country ; and the course pursued with respect to the renewal of the Charter of the Bank of Ireland will decide the future character of our general legislation respecting the management of the circulation. The public must come to a practical decision between the opposing plans. Rival issuers, equal in power and unlimited in number, on the one hand ; a single issuer, limited in his functions but invested with plenary power for the discharge of them, on the other hand, are the respective principles, however much they may each be modified by the details of practical arrangements. If the decision is to be first taken upon Irish ground, let not this accident mislead the public by the impression that it is a question of exclusively Irish interest. A precedent is to be established, a principle is to be decided, which will hereafter, and at no distant period, be applied to the monetary regulation of the whole kingdom. We trust this subject will attract the attention which it deserves ;

it is not the extent or magnitude of the movement which gives importance to legislative action, so much as the direction in which it tends ; and measures, in themselves of limited importance, often lead to most extensive consequences, because, unperceived at the moment, they have established a principle susceptible of wide application.

## CHAPTER IV.

*On the Consequences which depend on a good or bad Management of the Circulation.*

I. The system upon which our paper-issues are managed, and the causes of the fluctuations which so frequently occur, have thus far engaged our attention. For the complete understanding of the subject, it is necessary that we should now consider in what manner and to what extent the interests of the community are affected by a good or bad management of the circulation. Doubts have been raised as to the effect which any degree of mismanagement of a paper-currency, so long as it is convertible and the issuers of it continue solvent, can produce either in creating, intensifying, or prolonging the evils of commercial oscillations. Whilst some parties, as we have seen, attribute the fluctuations of trade, and the not unfrequent recurrence of mercantile and commercial difficulty, almost exclusively to mismanagement of the currency; other persons have taken a very different view of the subject. Fluctuations in trade, they contend, are necessarily connected with the very existence of commerce; variations in the relation of supply and demand arise out of natural circumstances, and

will produce alternations of prosperity and depression, whatever be the circulating medium, and in whatever manner regulated. The case would not be different were the circulation wholly metallic. Speculation, according to their views, originates in causes unconnected with the state of the currency; and although an undue amount of issue may aggravate the evil, where it exists; yet prices are but indirectly and distantly connected with variations in the amount of the currency, whilst other causes affect them more immediately and more powerfully. (See Appendix D.)

It is desirable, no doubt, that a correct understanding should exist on this point. Exaggerated views of this, as of any other subject, may very possibly have been indulged in by those who direct an exclusive attention to the examination of it; but we must not on that account run into the opposite extreme, and close our eyes to the serious consequences to a trading community, which depend upon the regulation of the circulating medium. The currency in which all transactions are adjusted has the same reference to the healthy state of trade, which the atmosphere in which we all live has to the physical constitution of our bodies; irregularities and disorders may arise from a variety of causes, but the duration and virulence of them will materially depend upon the pure, healthy, and well-regulated condition of the medium in which they exist. A well-managed currency cannot prevent

the occurrence of periods of excitement and over-trading, nor of their necessary consequences, commercial pressure and distress; but it may tend very powerfully to diminish the frequency of their return, to restrain the suddenness of their outbreak, and to limit the extent of their mischief. The connexion again between fluctuations in prices and variations in the amount of the circulating medium is a question of extremely difficult solution in its detail; and, probably, after the most laborious investigation of it, we can only come to the conclusion, that the immediate effect upon prices of any variation in the amount of the circulation may be over-estimated, whilst there undoubtedly exists a very intimate connexion between them. Indeed, unless this be admitted, the whole doctrine of regulating the circulation by reference to the state of the exchanges falls to the ground, and we are left without any principle upon which the management of the circulation can rest.

Whatever differences of opinion, however, may exist as to the extent to which either fluctuations in the state of trade, or the rise and fall of prices, are attributable to an imperfect regulation of the currency; these, it must be admitted, are secondary considerations only. Unless the paper-circulation of the country be regulated by a fixed rule, not fitful and capricious in its operation, but constant and invariable, its convertibility at all times cannot be effectually secured, and the maintenance of the

value of the currency, as measured by its ancient metallic standard, must become precarious and uncertain. Upon this point the events of the past year present us with an example pregnant with the most valuable instruction.

The monetary systems of the two principal commercial communities of the world have been subjected to a severe trial. In England a combination of adverse circumstances has caused a prolonged period of unfavourable exchanges ; a heavy drain upon the bullion of the Bank has ensued ; the necessary reduction of the amount of the paper-circulation of the country has been delayed, till some time subsequent to the commencement of the loss of bullion, and has not at any time been carried to a corresponding extent. The consequence of this has been a reduction of the bullion to a point which justly caused very serious alarm, and a general conviction that the monetary system of the country had been brought into imminent danger. The difficulty, however, there is reason to believe, has been overcome ; the bullion is again increasing, and the regulation of our paper-currency by reference to its ancient metallic standard, we may reasonably expect, will be maintained.

How striking is the contrast if we turn to the United States. Connected as that country is with England in all its commercial relations, it was impossible that the circumstances which caused a heavy pressure upon the monetary system of one

country should not at the same time seriously affect that of the other. (See Appendix E.) The drain upon our bullion, and the measures necessarily taken to counteract it, were immediately felt in their effects upon the banking system, and upon the currency of the United States. The strength and solidity of the system upon which the circulation of each country is established, were thus simultaneously brought to a conclusive trial; and the different result in each case might have been reasonably anticipated, from the different principles upon which the management of the circulation in each country is based.

In the United States the paper-circulation is under no general system or control. The duty of maintaining the convertibility of the notes, and the corresponding power of regulating their amount, does not rest with any specified body or institution; unlimited competition exists amongst banks of issue; and these banks combine with the business of issue, all the ordinary banking business of deposit and discount. The inevitable tendency of this system is evidenced by recent occurrences; it has proved unable to sustain the trial, and, after a feeble struggle, has altogether broken down. The convertibility of the paper-circulation has not been effectually maintained. The country is subjected to all the fluctuations and confusion which attend a suspension of specie payments, and will have to grapple hereafter with the formidable difficulties which

must attend the effort to restore a sound system of currency.

This result was not unforeseen by those who had carefully investigated the principles of currency ; " Supposing the Cabinet of Washington to be sustained in its views by the Representatives of the American people, and that the Union is left to be supplied with a paper-currency, by an unlimited number of banks, acting in competition, and without any control from the action of one powerful central body, we may anticipate, with certainty, a succession of catastrophes such as we have lately seen, occurring at intervals more or less distant according to circumstances." (*Norman on Currency*, 1838, p. 60.) This striking anticipation of a monetary convulsion, which has subsequently occurred, is calculated to create confidence in the truth of the principles upon which the prediction was founded ; and to establish the assurance, that a careful investigation of general principles will always prove to be the best guide through the intricacies of practical details.

In England, the paper circulation is established on the sound principle of vesting in one institution the power of controlling its amount, and the duty of maintaining its convertibility ; but that principle is very imperfectly carried out ; the power of control is incomplete ; rival issues, though of a subordinate character, are permitted ; banking functions are united with the management of the circulation,

though in a more limited degree than in the United States.

The consequence is, that our system, by virtue of the sound principle upon which it is based, has sustained the trial to which it has been subjected ; although, in consequence of the inconsistencies and imperfections which attach to it, the struggle has been difficult and prolonged, and accompanied with many well-founded apprehensions as to the result. Had the power of the Bank of England over the circulation been complete, and not counteracted in the first instance by the country issuers ; and again, had the Bank been left to pursue her simple duty of regulating the circulation by reference only to the state of the exchanges, and not been subjected to improper demands upon her in consequence of her connection with the Government and the commercial world, her difficulties would have been greatly diminished.

It is not always safe to judge of measures solely by events ; and mankind are perhaps too ready to take a fortunate result as the evidence of wisdom, and failure as proof of folly. But in those cases in which events can be clearly connected with the preceding circumstances, and be shewn to be their natural and legitimate effects, we may safely infer from the nature of the results, what is the character of the system from which they proceed. In the case before us, it seems impossible to doubt that

the different fate which has befallen the monetary system of the two countries is the consequence of the different principle upon which those systems are founded; and if we are intent upon profiting by experience, and wish to derive from past errors the lessons of future wisdom, we shall surely find in the respective condition and conduct of the Bank of England and of the Issuing Banks of the United States during the last year, abundant reason for repudiating the principle of competition in the management of the currency; whilst we shall perceive more clearly than ever the necessity of strengthening and extending the influence of the Bank of England as a bank of issue, and at the same time restricting, as far as possible, its connection with the business of deposits and discount.

These occurrences are calculated to convey the most useful instruction to those who will approach them in a fair spirit of inquiry, and free from the bias of previous opinions, adopted either upon their faith in other men's judgment or upon imperfect and hasty consideration. There still exist in this country individuals, rendered influential by their station as well as by their activity, who sanction the common clamour against the *monopoly* of the Bank of England, and attribute to that cause exclusively the instability of our currency, and the fluctuations of commercial affairs. It is the usual recourse of popular ignorance, when suffering under

the pressure of an evil, the cause of which they do not understand, to attribute it to the baneful effects of some supposed monopoly.

Mr. Senior, in his Lectures on Political Economy, 1830, when describing the effect of the French assignats upon the prices of all commodities, observes : “ the sovereign people felt and acted with “ the usual folly and violence of a despot. The “ depreciation of the assignats was attributed to “ the conspiracies of the Aristocrats, and to the in-“ trigues of Mr. Pitt. The rise of prices was ex-“ plained by the favourite theory of a monopoly.” Even the institution of property, that indispensable accompaniment of civilization, has been attacked by the ignorant as “ the monopoly of the rich ;” and under the influence of a similar feeling, those who have not taken the trouble to trace the defects of our monetary system to their true causes, at once have recourse “ to the favourite theory of a monopoly.” “ There is nothing which requires more “ vigilance than the current phrases of the day, of “ which there are always some resorted to in every “ dispute, and from the sovereign authority of which “ it is often vain to make any appeal.”\* “ Monopo-“ lies are mischievous.” “ Exclusive privileges are “ out of date.” “ Overgrown corporations are dan-“ gerous to individual rights.” These are all examples of such phrases. In the majority of cases

monopolies are, no doubt, injurious to the public interests ; and the notoriety of the fact renders it easy to excite against them an indiscriminate feeling of hostility. For the purposes, however, of enlightened and beneficial legislation, it is necessary to distinguish those cases to which the principles of free competition are applicable, from those in which exclusive privileges, accompanied by undivided responsibility, are necessary for the public protection. Such cases, though comparatively limited in number, exist ; and when they occur, they are not usually of a trifling or unimportant character. The power of creating money, like the royal prerogative of coining, are instances in point ; and if, misled by the current phrases of the day, we subject them to the principle of free competition, instead of managing them by an exclusive power subjected to undivided responsibility, the injury to the public interest may be incalculably great.

Have those, however, who sanction the popular cry of monopoly against the Bank of England well considered the banking and monetary condition of the United States at the present moment ? There is an example of free competition in issues, extended partnerships, paid-up capital, published accounts, no Monopoly. Do they there find stability in the currency and confidence in the commercial transactions of the country ?

Again, can they seriously examine the course of monetary affairs in this country during the past

year, and fail to be convinced that to the predominant power of one central issuer, we owe our present security ; whilst the magnitude and imminence of the danger to which we have been exposed, is attributable to the incompleteness of her monopoly ? As a contrast, and we would gladly hope that it might also act as a corrective, to the foolish prejudice existing amongst some classes in this country, against entrusting the paper circulation of the country exclusively to one body, we may refer to the opinion on this subject, expressed by one of the most distinguished men of the United States. At a period when the legitimate consequences of free and unlimited competition amongst issuing banks were developing themselves in that country, “ when the “ banks had suspended payments universally, when “ the internal exchanges were all deranged, and “ the business of the country most seriously inter-“ rupted ; ” Mr. Webster, speaking in the Senate of the proper means of remedying these evils, said, “ the great measure is a Bank, because a Bank is “ not only able to restrain the excessive issues of “ state banks, but it is able also to furnish for the “ country a currency of universal credit and of “ uniform value. This is the grand desideratum. “ Until such a currency is established, depend on “ it what is necessary for the prosperity of the “ country can never be accomplished.”

These words of prophetic wisdom were rejected by those to whom they were addressed ; and that

country is now suffering the penalty, in the unexpectedly early return of the disasters, against which this was the reasonable and only effectual preservative. (See Appendix F.)

The very existence of specie payments in this country at the present moment is attributable to the influence of one predominant issuer, charged with the responsibility of maintaining the convertibility of its notes. Without the Bank of England to warn by its example, and to control by its power, there is every reason to believe that the paper issues would have been regulated in no degree by the state of the exchanges, but solely in accordance with the apparent wants of commerce and the demands of the trading world. Increasing issues would have accompanied decreasing bullion, until even the appearance of a mutual connection could no longer be preserved, and a general suspension of payments in specie had become inevitable. On the other hand, the danger to which we have been exposed and the difficulty with which the last extremity has been averted, may be clearly traced to undue delay in commencing, and insufficient steadiness on the part of the Bank in continuing, the reduction of her issues conformably to the decrease of the bullion; and also to the imperfect power which the Legislature has vested in her of controlling the acts of the other issuers.

Will these events be suffered to pass by unregarded by us? Calamity actually sustained by one

country, and narrowly escaped by another, is a warning sufficiently distinct and emphatic. These events we cannot refuse to see, neither can we close our ears to the voice which they speak ; but we may suffer them to remain profitless for our present instruction, and let our attention sleep until the actual arrival of the catastrophe, of which they are the heralds, shall awake us to an unavailing sense of our danger.

Our adherence to principle, to whatever extent it has been carried, has never yet failed to realize its anticipated consequences. Ought not this consideration to give us confidence in our course, and to urge us to still further advances towards that state in which the management of our circulation shall be placed upon a clear, simple, and consistent system ?

The union of banking functions with those of issue ; the obligation imposed upon the manager of the circulation to supply the uncertain and fluctuating demands of Government, on account of the public service ; the existence of rival and competing (though subordinate) issuers, not directly subjected to the obligation of regulating their issues with reference to the state of the exchanges ; the application of the rule which the Bank has laid down for its guidance, to the joint liabilities, (deposits as well as circulation) instead of applying it to the circulation only ; the too intimate connexion of the manager of the circulation with com-

mercial affairs, and the implied duty which arises out of it of supporting public and private credit; to whatever extent in these respects our present system deviates from that which sound views would dictate, the blame cannot with any justice be exclusively thrown upon the Bank. They are the remaining traces of a false system which was established when questions of currency were less understood than they now are; they carried with them the approval of the Legislature and the public at large; and they have never yet been authoritatively repudiated or condemned by either. “When the Bank “was most in fault, it was most in accordance with “the Government, the Parliament, and the public “at large. I believe the most unpopular tenet that “ever was, was the being a bullionist twenty years ago.”—*Mr. Ward's Evidence, 1832.*

It is to be hoped, however, that the progress of public intelligence will be accompanied by a corresponding improvement in our practical measures; and that with increasing experience, we shall gain increasing courage to shape our system for the management of the circulation in more strict accordance with the requirements of principle. A due regard to the inconvenience which always attends the disturbance of an existing system must not be neglected; but we need not despair of reconciling this consideration with a gradual rectification of many of the defects to which we have adverted. The evil is of a magnitude sufficient to impress us

with the necessity of applying a remedy, but not such as to justify us in despairing of the result.

IV. A motion was made in the last Session of Parliament for a Committee "to inquire into the pecuniary transactions of the Bank of England since the resumption of cash payments, and particularly to ascertain how far these transactions produced the alarming crisis of the manufacturing, commercial, and financial affairs of the country in 1825-6 and in 1836-7; and also to inquire whether, as the Bank of England is at present constituted, there ever can be stability in the currency or confidence in the commercial transactions of the country;" and notice has been given of the renewal of this motion in the ensuing Session. From such an inquiry, properly directed, much good may undoubtedly arise. By the defects and inconsistencies which still exist in the system upon which our paper circulation is managed, as well as by erroneous impressions still remaining upon the public mind respecting the nature and the extent of the duties which legitimately devolve upon the manager of the circulation, the Bank is at times liable to be seriously inconvenienced, and the efficiency of her measures impaired. An investigation of these points might probably lead to some valuable improvements in our present system, and also tend to correct the prejudices and unreasonable expectations still entertained by the public. It is,

however, essential to the efficiency of such an inquiry that it should not be directed to false objects.

The present system is not fairly responsible for all the evils which are sometimes laid to its charge ; neither is it within the power of any system upon which the monetary affairs of a country can be placed, to realize all the sanguine anticipations which some persons entertain. So long as human nature remains what it is, and hope springs eternal in the human breast, speculations will occasionally occur, and bring with them their attendant train of alternate periods of excitement and depression. Those who expect to find, even in the most perfect management of the circulation, the magic power to secure perpetual ease and undisturbed steadiness in commercial affairs, are like the alchymists in search of their mysterious secret ; and the discovery, if made, would prove equally useless. Storms and tempests are not more certain and inevitable in the material world, than are the periodical convulsions of commercial affairs ; and they both answer similarly useful purposes. In moderating the force of them when they occur, a well-regulated currency must necessarily exert considerable influence. But the principal and most important benefit to be attained by a due regulation of the currency, consists less in the indirect effect which it may have in preventing violent fluctuations in the state of trade or of prices, than in its direct tendency to

protect and secure the convertibility of the notes under all possible contingencies. Money, it must be remembered, is not only useful as a medium of exchange in lieu of Barter or Credit, but also as a Measure of Value; and when paper, in itself possessing no intrinsic value, is used as a substitute and representative of the precious metals, the convertibility of that paper becomes essential for preserving its character as a Standard of Value. When the convertibility ceases, there is no longer any fixed limit to the amount which may be issued, nor any means of obtaining in exchange for the notes that of which they purport to be the representative. Gold is in this country the measure of all exchangeable value, the scale to which all money prices are referred. Consequently, when the issuer of the paper circulation of a country is driven to the necessity of suspending his payments in specie, the determinate measure of value in that country is lost; and there then exists no other standard of prices, than that circulating medium, issued primarily by the Bank of England and in a secondary manner by the Country Banks, the variations of which in relative value may be as indefinite as the possible excess of that circulating medium. If after suspension the paper notes are still used for that purpose, it must be done under a reliance upon the resumption of payments in specie, by which the true character of the notes as a measure of value may be revived. In the meantime, however, the

notes must remain subject to unlimited variations in value from excess of issue, " That natural check " or control being absent which maintains the value " of money, and, by the permanency of the com- " mon standard of value, secures the substantial " justice and faith of monied contracts and obliga- " tions between man and man."—*Bullion Report*, 1810.

The continuance of this state of things beyond the period required by imperious necessity, would be inconsistent with the honour and integrity of a country, and would prove deeply injurious to its interests; whilst the difficulty of restoring the paper currency to its just value will always be found to be of the most formidable character. Of the nature of this difficulty, of the extensive private suffering, of the disturbance in the operations of trade, of the derangement of property, and the unavoidable injustice to extensive classes which necessarily attend this process, we have had recent experience in this country; and the painful recollection of what we have gone through must surely teach us the importance of adopting such regulations for the management of the circulation, as shall place the convertibility of the notes beyond the reach of danger. It is in this that the importance of all discussions of this nature really consists; and all inquiries upon the subject must terminate unsatisfactorily, which are not directed to this as the principal, if not the exclusive, object of attention.

The convertibility of the paper issues can only be maintained by a due regulation of the amount of them ; and all systems for the management of the currency must be defective and unsafe, in proportion as they limit the power of controlling the amount of the issues, or subject the party in whom that power is vested to other obligations or influences incompatible with the due discharge of that duty. We have endeavoured to show how far our system is defective in these respects. The more difficult task remains of determining what are the appropriate means for removing those defects. (See Appendix G.)

V. One of the principal points of inquiry to which the Committee of 1832 directed their attention was, “ Whether the paper circulation of *the metropolis* “ should be confined to the issues of one bank and “ that a commercial company ; or whether a com- “ petition of different banks of issue, each consisting “ of an unlimited number of partners, should be “ permitted.” The result of that inquiry was a decision in favour of one bank of issue *in the metro-  
polis*, and that a commercial company. Since that time, however, questions of currency have undergone much discussion, and sound information on the subject is more extensively disseminated. The time indeed is probably arrived when the question might be taken up in a more comprehensive form, and a committee of parliament might advantageously direct its inquiries to the point, “ Whether the circulation

" of the whole country should be confined to one bank of issue, and whether that bank should be restrained from all other banking or commercial functions." For the elucidation of this most important question, it would be necessary to inquire how far the power of duly controlling the amount of the issues is interfered with and weakened by the existence of competing issuers ; by the obligation of meeting the uncertain and fluctuating demands of Government ; and by the duty of supplying the wants of commerce and sustaining public and private credit. The possibility and expediency of separating all other banking functions from the management of the currency would necessarily come under consideration ; and also the best means of accomplishing this object, whether by a separation of the departments, leaving them still under the control of the same body ; or by placing the management of the issues in the hands of commissioners appointed solely and exclusively for that purpose. Of the beneficial results which would arise from a searching inquiry into these points it seems impossible to entertain a doubt ; much valuable information would be elicited, many erroneous impressions still prevalent would be corrected, the public mind would be instructed and gradually prepared for necessary changes, the confidence requisite for carrying out sound principles, would be strengthened and confirmed, and in all probability our monetary system would undergo such improvements as would effectu-

ally secure its solidity and solvency under every possible trial. The effectual accomplishment of this result would necessarily, and without any direct attention being given to them, involve the collateral advantages attendant upon a well-regulated currency; the convulsions of commerce and the oscillations of prices would no longer be influenced by irregular and improper fluctuations in the amount of the circulating medium; and to whatever extent they might henceforth occur, they would be the legitimate effect of natural causes, the remedy for which is to be sought only in individual forethought and prudence. Should such be the ultimate result of the ordeal through which we have passed, we shall indeed have turned our misfortunes to good account, and be enabled to look back upon the events of the past year, rejoicing that we have been in trouble.

VI. The instances are but rare in which human wisdom is able so fully to comprehend the nature of existing circumstances, as to foresee the consequences which are involved in them, and by prospective measures to regulate and determine the character of future events. We are in most cases the pupils of experience; and it is an old remark that wisdom is best learned in the school of adversity. Certain it is, that many of our wisest measures have originated, not in the unprompted suggestions of foresight, but in the necessity of applying a remedy to evils, the nature of which we have learned to understand only by feeling their effects.

The depreciated value of Bank of England notes, the high price of bullion, the deranged state of the exchanges between this and all foreign countries, which occurred during the suspension of cash payments, were practical illustrations of the evils attending an inconvertible paper money. It was impossible altogether to overlook these considerations; although it was not without much difficulty and after repeated discussions, that the importance of them was sufficiently impressed upon the public, and the truth of the principle upon which they depend was admitted; namely, that paper money ought to be regulated in amount by the state of the exchanges, and that, other things remaining the same, its value increases as the quantity diminishes, and diminishes as the quantity increases. The bill of 1819, commonly called Peel's Bill, was resorted to as the remedy for these evils; it was founded upon the principles of the Bullionists, and may be considered as their measure. For the object then in view, the restoration of the currency to its just value by the re-establishment of the ancient metallic standard, it was sufficient.

The next evil attending our system of paper money, and to which again practical experience alone excited sufficient attention, was the danger of insolvency on the part of the issuers. The crash of 1825 was the school of adversity in which wisdom was learned on this point, and the establishment of the Joint-Stock Bank system was the reme-

dial measure which emanated from it. It cannot be said that this arrangement has realised all that was expected from it, but it has no doubt produced a great diminution of the evil against which it was directed.

Since that period stirring events have occurred in monetary affairs, and many characteristics of our system, previously latent, have been brought into prominent notice. The convertibility of the notes, the essential feature of Peel's Bill, has been seriously endangered on more occasions than one. In 1825 we were, according to the highest authority, within a few hours of a state of barter ; and omitting all reference to intervening periods, there can be no doubt that within the last year a danger of a similar nature has been incurred.

It is not sufficient merely to ordain, as Peel's Bill did, the convertibility of the notes ; it is further necessary to see that effectual means are provided for that end. It is now discovered that there is a liability to excessive issues of paper, even while that paper is convertible at will ; and that to preserve the value of a paper circulation, not only must that paper be convertible into metallic money, but the whole of its oscillations must be made to correspond exactly, both in time and amount, with what would be the oscillations of a metallic currency, as indicated by the state of the bullion. Such a system therefore for the management of the circulation must be constructed as shall secure that due

and steady regulation of the amount of the issues, through which alone any permanent security for their convertibility can be obtained.

The state of the Bank in the autumn of 1825 and again of 1839 ; the constant and violent fluctuations which have characterised the intervening period ; the agitated and dissatisfied state of public feeling which has arisen out of them ; these are the evils which now demand attention and call loudly for a remedy. The difficulties of the case, whatever they may be, will not be lessened by any attempt to evade them. “ It is to be hoped that no fallacious reasoning will be listened to ; that we shall at last open our eyes to the dangers that beset us—that we shall examine coolly, and decide manfully.”

Phenomena like those we have alluded to, do not occur without some cause ; and it does not seem reasonable to assign any less cause than some serious defects in the system upon which the management of the circulation is established. These defects, instructed as we now are by experience, it is not difficult to discover. Competition in issues is inconsistent with the steady regulation of their amount ; whilst banking business combined with that of issue is the union of incompatible functions. The former deprives the manager of the circulation of the necessary power, whilst the latter subjects him to improper and dangerous influences. These propositions, we think it is not too bold to

assert, rest upon the combined evidence of general reasoning and practical experience.

To what results then do these views lead ? and what are the remedial measures which can be resorted to ? The management of the circulation being in the hands of the Bank of England, a due regard to the claims of an existing institution, to the impolicy of carrying change beyond that which the necessity of the case requires, and to the inconvenience of disturbing the established habits of the country, render it inexpedient to interfere with that arrangement ; unless the separation of the two departments by the Bank itself, or an approach to it, be altogether impracticable. Upon this subject the Directors of that establishment can alone speak ; it rests with them to explain what are the difficulties in the way of this arrangement, their nature, their extent, and the possibility or otherwise of overcoming them.

One difficulty will probably be anticipated as likely to arise from the diminished power which the Bank under this arrangement will possess of relieving commercial pressure and extending support to public credit. This evil, however, will probably prove to be much less than many persons apprehend. We have already observed that by the repeal of the Usury Laws a more legitimate as well as a more certain and more abundant source of relief has been opened to the trading world.

We may further observe that the banking re-

sources of the Bank will remain unimpaired and unfettered ; and the only respect in which the Bank will be restricted, by the separation of the currency from the banking department, will be in the exercise of her improper and dangerous power of creating money beyond the amount which ought to exist.

Whatever consequences arise from this cause ought to be cheerfully acquiesced in by an intelligent community ; it is childish ignorance only which complains of the restraints laid upon it for its own security. We must not be inconsistent in our expectations. It is the universal law of human affairs that every good must be purchased at its appointed price ; and no country can expect to enjoy the durable advantages of a currency regulated by a fixed metallic standard, without submitting to the occasional inconveniences and pressure which are the indispensable means for accomplishing that end.

A more serious difficulty will arise from the multiplicity of issuers over whom the Bank possesses a very insufficient control. To subject the Bank to the strict application of principles, from which these parties are left altogether exempt, would certainly be a very inconvenient course. The efficacy of the measure would be materially impaired, and possibly under such circumstances the perfect safety of it might be open to question. Whilst the present system of multiplied issuers is permitted to con-

tinue, we must always be exposed to the possibility of a sudden contraction by the country issuers, either voluntary on their part, or rendered unavoidable by their insolvency or by the withdrawal of public confidence. The void thus created must be filled up by the central issuer; and unless, under such circumstances, he is permitted to increase his issues without a previous influx of bullion, much public inconvenience might arise. Such an extra issue of Bank of England notes to fill the chasm created by the discredit of country paper became absolutely necessary in 1825; and to the possibility of the recurrence of some similar emergency we must be exposed, so long as a multiplicity of issues by private individuals constitute an important portion of our circulation. The force of this consideration cannot be denied. The power of overcoming the difficulty depends, in a great degree, upon the extent to which any measure for that purpose would receive the concurrence of the parties immediately interested, and be supported by that degree of public sanction, without which no measure on such a subject could be prudently attempted. It is one of those cases in which true wisdom consists in watching the propitious moment; ready to avail ourselves of it when it occurs, and prepared to act in concert with the public will, without attempting to force it. Repeated discussion, constantly pressed on the public attention, is the legitimate means to dissipate remaining prejudices, and to secure the pro-

gress of truth. By "much arguing, much writing, and many opinions," we may hope that the public judgment will be gradually ripened, and prepared for those salutary changes, which will be found easy of execution in proportion as they are sanctioned and supported by general approval. We often create impossibilities by fearing them; and probably in the present case, the difficulty of substituting one national currency for the mass of rival issues which are now scattered over the kingdom, would be found to exist more in apprehension than in reality.\* The object is not without its importance or its value ; the re-establishment of our metallic standard has been purchased by this country at no trifling price ; an effectual security for the maintenance of that standard under all contingencies cannot be obtained without some sacrifice of private interest on the altar of public good.

## VII. If, in the course of these remarks, we have incidentally expressed ourselves in terms which

\* On a former occasion the writer expressed himself with some hesitation upon this point ; the suggestion of separating the management of the circulation from banking business has since that time attracted a considerable degree of public attention ; and the general favour with which it has been received, indeed the decided approval of it which has been expressed in many quarters, encourage him to believe that the difficulties, which depend almost entirely upon opinion, would be less than he then ventured to anticipate.

imply a neglect of duty on the part of the Bank, it is our anxious wish not to be misunderstood on this point. We censure not the administration of the Bank; our objections are directed rather against the erroneous principles on which the Bank in its compound character is at present constructed; we quarrel not with her particular acts, and allude to them only, as illustrating the nature and tendencies of the institution from which those acts emanate of necessity. The Legislature has created the Bank feeble and imperfect in her constitution; and, at the same time, has placed her in the midst of difficulty and temptation. It has exposed her to solicitations which it is not in her nature to reject, and has imposed upon her duties of the highest responsibility, without giving her strength and power adequate for the discharge of them. These considerations are a sufficient answer to the charge of wilful and culpable negligence sometimes urged against her.

An undue regard for her own pecuniary interests is deemed by others to be the true cause of all her misdoings. We must not forget, however, that the union of a proper attention to the interests of her proprietors with the discharge of public duties, not at all times in perfect harmony with those private interests, is the condition of her existence. For this the Bank is not responsible, but those who have made the Bank what it is. Her conduct, in the attempt to reconcile public duty with private obligation, ought to be judged with reference to the

conflicting difficulties of the position in which she is placed ; and when fair and candid allowance is made for this consideration, we think the verdict, on this count at least, cannot go against her. If her circulation and securities are usually kept too high during the efflux of bullion, it must not be forgotten that they are always in course of reduction when the return of treasure would appear to justify an increase of them. These facts are irreconcileable with the supposition of the Bank having surrendered herself to the exclusive influence of self-regarding views ; but they become perfectly intelligible, if we refer them to the ill-assorted union, which the Legislature has established, between the power of creating money and the business of distributing it through banking operations—

“ *rudis indigestaque moles*  
“ *Non bene junctarum discordia semina rerum.*”

The infirmity of purpose and occasional departure from principle which we impute to the Bank, are the necessary consequence of this discordant intermixture of jarring elements ; it is unreasonable to complain of individual instances of mismanagement, when our attention should be directed to that which is the original cause of all the confusion.

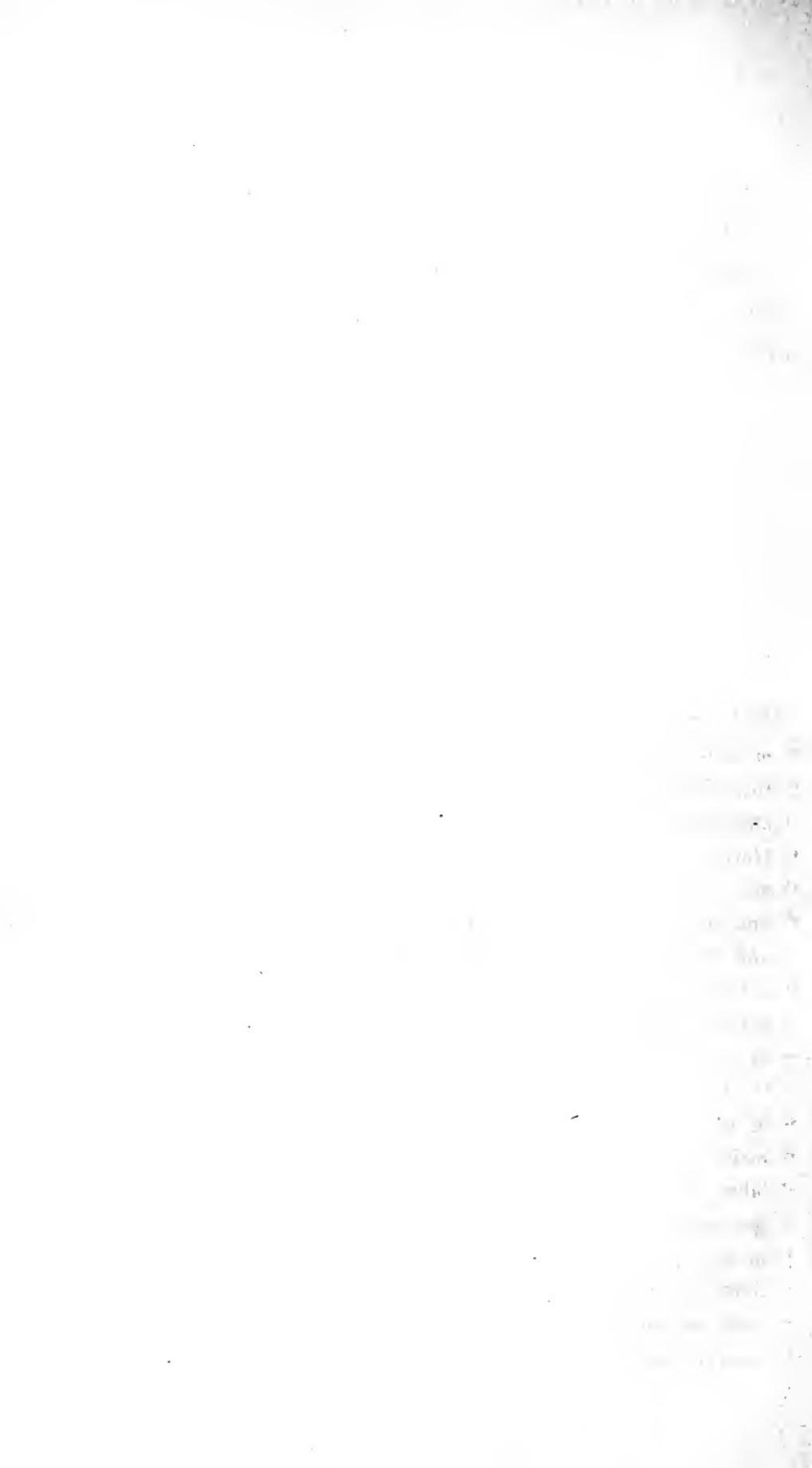
A Repeal of the Union is essential to good government in monetary affairs. The common Crown may still rest upon the brows of the Sovereign of Thread-

needle-street; and She may be permitted to wield one Sceptre of authority over her separated departments. But she must consent to hold a Committee of Treasury in the Bullion-Office as well as in the Discount-Parlour; and must govern them through the instrumentality of a distinct system of laws, appropriate to each, and in harmony with their respective purposes; the interest and well-being of the one must no longer be interfered with or endangered by influences or affections connected with the other. By this timely adaptation of an ancient institution to the necessities of a more enlightened age, the recurrence of past grievances may be prevented; the present agitation may be allayed; and a reform be effected, which shall be safe, because it is temperate and gradual. Whilst, on the other hand, by an unbending resistance to all reasonable propositions for improvement, even the Limited Monarchy under which our circulation has hitherto been managed may be endangered, and all be lost in the ungovernable Democracy of rival issues.

It must be admitted, however, that such a change, in the system upon which the circulation of the country is managed, cannot be considered as one of those ordinary measures of administration, the free agency with respect to which ought to rest entirely with the Directors of the Bank. Consequences of the utmost importance to the public interest are involved in the question; and the decision, whatever

it may be, ought to be taken under the sanction and authority of the Legislature. Parliament, if any thing effectual is to be done, must express its will on the subject; and there is no reasonable ground to doubt either the competency or the readiness of the Bank to give effect to that expression. The sentiments on this point expressed by the Committee of 1810 are at least equally applicable to the present occasion. “To the discretion, experience, and integrity of the Directors of the Bank, “ your Committee believe that Parliament may safely “ intrust the charge of effecting that which Parliament may in its wisdom determine upon as necessary to be effected; and that the Directors of that “ great institution, far from making themselves a “ party with those who have a temporary interest in “ spreading alarm, will take a much longer view of “ the permanent interests of the Bank, as indissolubly “ blended with those of the public.” The Directors of the present day, not inferior to their predecessors in point of integrity, have the advantage to be derived from the additional experience of thirty years, full of instructive events, and characterised by a great advance in the general intelligence upon subjects of currency. These advantages have not remained unimproved by them; and if their measures are still the subject of criticism, we must remember that it is because we are trying them, not by a comparison with the measures of any former

period, but with that standard of abstract perfection, which, if unattainable, is still approachable; and towards which, therefore, as the prize of their high calling, the managers of the circulation ought always to be pressing forward.



## A P P E N D I X.

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(A.)

“ It becomes a curious matter of speculation to inquire, how, with  
“ motives so strong to constant and progressive excess, and under  
“ the guidance of maxims and principles so unsound and of such  
“ apparently mischievous tendency as those professed by the  
“ Governor and some of the Directors of the Bank in 1810,  
“ such moderation and (with some exceptions which will be  
“ noticed hereafter) such regularity of issue should, under chances  
“ and changes in politics and trade, unprecedented in violence and  
“ extent, have been preserved, as that a spontaneous re-adjustment  
“ between the value of gold and the paper should have taken place,  
“ as it did without any reduction of their circulation.

“ The explanation of the difficulty seems to be this. The rule  
“ by which the Bank Directors professed to be, and were in the  
“ main, guided, viz. the demand for discount of good mercantile  
“ bills, not exceeding sixty-one days date, at the rate of five  
“ per cent. per annum, did, with the necessary policy of Govern-  
“ ment in periodically reducing the floating debt within certain  
“ limits by funding, operate as a principle of limitation upon the  
“ total issues of the Bank. And the reason of the rule having  
“ so operated, is to be found in the fact, that the market rate of

" interest for bills of the description which were alone discountable at the Bank, did not materially, or for any length of time together, exceed the rate of five per cent. per annum. But the Bank Directors seem to have been unaware of the precise mode of operation by which their rule had the effect of a principle of limitation against great or permanent excess in their circulation."—*Tooke's History of Prices*, vol. i. p. 158.

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(B.)

" The vicious part of our currency is, that it is not supplied by one but by hundreds of issuers all actuated by conflicting views and interests. A paper currency should, if issued on right principles, always correspond with the standard, that is, it should vary in amount and value precisely as a gold currency would do, were the notes withdrawn and coin substituted in their stead. Now, to insure this identity between paper and gold, and to avoid those fluctuations in the supply and value of money that are so very injurious, it is indispensable that the issue of notes should be regulated by the influx and efflux of bullion. But with the single exception of the Bank of England, there is hardly another establishment for the issue of notes in the empire whose proceedings are at all regulated by a regard to the exchange. The Joint-Stock Banks and the private Banks of England and Wales are wholly governed by their own separate estimates of what is most for their own interests. Variations of the exchange affect them only indirectly and remotely; and in regulating their issues they look only to the state of prices and credit among their customers. They cannot indeed be expected to act otherwise. Suppose that owing to any circumstances the currency becomes redundant, and that the Bank of England is in consequence obliged to contract her

" issues. In such a case the country bankers may, and some of  
 " them, no doubt, do see that they also ought to contract; but  
 " being a very numerous body, comprising several hundred esta-  
 blishments scattered over all parts of the country, each is im-  
 pressed with the well-founded conviction that all that he could  
 " do in the way of contraction would be next to imperceptible,  
 " and no one ever thinks of attempting it so long as he is satisfied  
 " of the stability of those with whom he deals. On the contrary  
 " every banker knows, were he to withdraw a portion of his  
 " issues, that some of his competitors would most likely embrace  
 " the opportunity of filling up the vacuum so created—and that  
 " consequently he should lose a portion of his business, without  
 " in any degree lessening the amount of paper afloat. Hence in  
 " nineteen out of twenty cases the country banks go on increasing  
 " their aggregate issues long after the exchange has been no-  
 toriously against the country; and when at last they are com-  
 pelled because of the altered state of things in the metropolis  
 " to pull up, the chances are ten to one that the contraction is  
 " carried to an improper extent."—*M'Culloch's Notes on Adam  
 Smith.—Money.*

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(C.)

Plans for an improved system of currency are frequently laid before the public, which rest entirely upon this fallacy. The exclusive object of these systems is, to obtain for the paper currency to be issued under them a greater degree of security, than that which is supposed to attach at present to the notes of the Bank of England. This end the authors of these schemes generally propose to accomplish by contrivances which they deem to be extremely ingenious, but which always resolve themselves into the simple plan of making property of some kind or other

the basis of the circulation. Sometimes the plan suggested proposes to issue a paper currency against the security of land, sometimes against the security of the public debt, and sometimes against merchandize in the docks ; but having provided for the security of the notes, the plan generally terminates at this point ; the projector apparently conceiving that he has satisfied all the desiderata of a good paper currency, although he has introduced no specific measure for regulating the amount of that currency and maintaining its value relatively to the currencies of the other countries of the world.

To all reasonable persons the security of the Bank of England paper must, we think, be sufficiently satisfactory. It is perfectly safe so long as the Government of the country remains solvent. Upon the supposition of national insolvency no currency whatever, except a purely metallic one, will maintain its value or efficiency. For the further purpose of duly regulating its amount and maintaining its value relatively to the other currencies of the world, the Bank of England contains the best possible provision, in the constant convertibility of its notes into gold. Its excellence in these respects is best proved by contrasting it with all the rival schemes which have been proposed. Indeed all that seems requisite for rendering it perfectly satisfactory and efficient is to cleanse it from the impurities which attach to it—to separate it from all connection with ordinary banking functions, and to release it from the interference which arises from the competition of other issuers. The circulation of the Bank of England, when thus protected from all improper influences, and made the exclusive circulation for the whole kingdom, will approach as nearly as possible “ the most perfect state to which a currency can be brought ; “ that by which the public are secured against any variations in “ the value of the currency, other than those to which the standard “ is subject, and in which the circulation is carried on by the “ least expensive means.”—See *Mr. Ricardo's Evidence before the Secret Committee of the House of Commons*, 1819, p. 135.

(D.)

A great difference of opinion appears to exist, amongst those whose judgment is entitled to the greatest weight upon such subjects, respecting the extent to which the prices of all articles, and consequently the general state of trade, are affected by variations in the amount of the circulation. The principal object of Mr. Tooke in his elaborate and most interesting History of Prices, is to establish the doctrine "that there is not any single commodity in the whole range of articles embraced in the most extensive list of prices, the variations of which do not distinctly admit of being accounted for by circumstances peculiar to it, in the relation of supply, actual or contingent, real or apprehended, to the ordinary rate of consumption," without reference to the effects of variations in the amount of the circulation. With this view the History of Prices and the state of the circulation from 1793 down to 1837 are minutely traced and contrasted with each other; and the conclusions at which the author arrives are stated in these words: "That according to the historical view which has been presented, there is every reason to infer that there was no such variation of the quantity of money, arising out of the manner in which the Bank issues were regulated, during and subsequent to the restriction, as to justify the inference of its having been an operative cause of the great variation of prices. The whole tenor of the facts and reasonings adduced has been to establish the conclusion, that the great alterations of price originated, and mainly proceeded, from alterations in circumstances distinctly affecting the commodities; and not in the quantity of money, in relation to its functions, or in comparison with what, upon fair grounds of presumption, it might be supposed that it would have been, if there had been no restriction but at the same time no pressure upon the exchanges by extraordinary foreign payments." And again, "It must be admitted that the hypothesis which ascribes to variations in the

“ productiveness of the mines more than its due importance, is  
 “ not chargeable with the inconsistencies, and the utter untena-  
 “ bleness in argument of either the theory of war-demand, or  
 “ the more generally prevalent doctrine of the paramount influ-  
 “ ence of alterations in the system of our currency.”

With these contrast the following remarks by Mr. M'Culloch in his admirable notes to his edition of “ *The Wealth of Nations* :”

“ Nothing tends so much to generate a spirit of over-trading and  
 “ to occasion commercial revulsions, as sudden changes in the  
 “ amount and value of money. Those who embark most readily  
 “ and eagerly in time bargains and other speculative adventures are  
 “ not, generally speaking, of the class of rich and old established  
 “ merchants. They consist principally of those who have but  
 “ recently entered into business, and who are tempted by the  
 “ chance of speedily making a fortune, to engage in such hazardous  
 “ transactions. And while any unusual facilities in the obtain-  
 “ ing of discount act as powerful incentives to such persons to  
 “ speculate, it is at the same time obvious, that the rise of prices  
 “ consequent to an increase of the currency, will not only lead  
 “ them to believe that their anticipations are being realised, but  
 “ will, most probably, make even the most considerable mer-  
 “ chants withhold their produce from market, in the expecta-  
 “ tion of a further advance. The miscalculations of particular  
 “ classes merely affect themselves, or, at most, exert only a  
 “ slight influence over the rest of the community; but a revul-  
 “ sion occasioned by a sudden change in the amount and value  
 “ of money affects every individual, and is always productive of  
 “ the most extensively pernicious results.”

We may further add as illustrative of this branch of the subject a passage extracted from Mr. Tooke's “ *Considerations on the State of the Currency*,” 1826, p. 63. “ Fluctuations, to a greater or less extent, are inseparable from the course of commercial affairs. The business of production, or supply, proceeds wholly on anticipation; it is dependent on the seasons, and on an endless variety of casualties; while consumption, or demand, may be influenced by changes of habit, fashion, legislative

" enactments, and by political events. The contingencies which " may excite a spirit of speculation and enterprize on the " one hand, and disappoint expectation and defeat calculation on " the other, are therefore almost innumerable. But assuredly " that is a most vicious system of currency, which instead of " mitigating, aggravates the evils that attend all violent fluctua- " tions. Such, however, has been the system of our currency. " We have seen that precisely at the time at which there ought to " have been a contraction, there was an extension of the Bank of " England issues, increasing, both directly and indirectly, the " mass of the circulation, and promoting the extravagant specula- " tions which have so distinguished the period under considera- " tion."

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(E.)

The peculiar and sensitive nature of credit, and the almost surprising manner in which any interruption to the regular discharge of engagements in one place is felt in its effects upon the monetary condition of other places, remote in point of distance, and apparently beyond the reach of such influences, is a phenomenon not altogether peculiar to modern times. It is alluded to in a remarkable passage of the speech of Cicero pro Lege Maniliâ :

" Cum in Asia res magnas multi amiserant ; scimus, Romæ, " solutione impedita, fidem concidisse. Non enim possunt *una* " *in civitate* multi rem atque fortunas amittere, ut non plures " secum in eandem calamitatem trahent. A quo periculo prohibete " rempublicam, et mihi credite (id quod ipsi videtis) hæc fides et " hæc ratio pecuniarum, quæ Romæ, quæ in foro versatur, implicita " est cum illis pecuniis Asiaticis et cohæret. Ruere illa non possunt, " ut hæc non eodem labefactata motu concidant." The activity of intercourse and the mutual inter-dependence of interest which

navigation and commerce have created in modern times, tend to render all nations, at least all trading communities, members of one commercial commonwealth. Whatever concerns the prosperity of one country is felt in its effects by the others, and all have a common interest in the due regulation and the prosperous progress of the affairs of their neighbours. The nervous system of the human frame is not more delicate and sensitive through all its ramifications, to an injury inflicted upon any one part, than is that mysterious net-work commercial credit, by which the nations of the world are bound together in one common interest, and the effects of monetary calamities, whatever may be the country upon which they first fall, are speedily diffused over all. May this truth sink deeply into the hearts of nations! and lead them to view the *false glories* of war in their true relation to the *substantial fruits* of peace. Mutual interests are the true basis of mutual amity; and by explaining to mankind the complex relations which arise out of these interests, and thus developing the principles of affinity which exist amongst nations instead of those of repulsion, Political Economy will prove herself to be the best teacher of national morality and the most effectual inculcator of the doctrines of peace. She has clearly demonstrated that no country, and least of all any commercial country, can suspend its friendly relations with another, without inflicting upon itself the deepest injury; the first blow struck against its enemy vibrates through its own frame, and it can only reach the satisfaction of injuring another, through punishment, more certain and probably equal in its severity, inflicted upon itself. May we not hope that the day is not far distant, when the conviction of common interests shall lead nations as well as individuals to live in common brotherhood? And when the hostile collision of man with man, individually or collectively, shall be regarded as the discreditable evidence of incomplete civilization? The signs are already visible in the horizon, though perhaps at present like 'a cloud no bigger than "a man's hand;"' and it may be the happy inheritance of our descendants to live in times when the public conduct of nations, as well as the private acts of the individuals which constitute them,

shall emanate from nobler impulses, and conform to a more elevated standard. " They shall beat their swords into ploughshares and " their spears into pruning-hooks ; nation shall not lift up sword " against nation, neither shall they learn war any more."

If these be the dreams of Utopia, who would not wish to become a citizen of the happy republic ?

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(F.)

The distinguished reputation of Mr. Webster, as one of the most talented and enlightened members of the American Senate, has become better known to the people of this country in consequence of the visit with which he has recently honoured it. His views upon questions of currency, now become more important perhaps in the United States than they are even in this country, must be interesting and instructive to all who give their attention to the subject. The following passage is extracted from the second speech of Mr. Webster on the sub-Treasury Bill, delivered on the 12th of March, 1838 :—

" Before leaving altogether this subject, I will say a few words " upon the proper guards and securities for a paper circulation. " I hold it to be of the utmost importance to prove, if it can be " proved to the satisfaction of the country, that a convertible " paper currency may be so guarded as to be secure against pro- " bable dangers. I say, sir, a convertible paper currency, for I " lay it down as an unquestionable truth that no paper can be " made equal and kept equal to gold and silver, but such as is " convertible into gold and silver on demand. But I have gone " further, and still go further than this, and I contend that even " convertibility, though itself indispensable, is not a certain and " unfailing ground of reliance. There is a liability to excessive " issues of paper, even while paper is convertible at will. Of

" this there can be no doubt. Where, then, shall a regulator be found? What principle of prevention may we rely on?

" Now I think, sir, it is too common with banks, in judging of their condition, to set off all their liabilities against all their resources. They look to the quantity of specie in their vaults, and to the notes and bills becoming payable, as means or assets; and with these they expect to be able to meet their returning notes, and to answer the claims of depositors. So far as the bank is to be regarded as a mere bank of discount, all this is very well; but banks of circulation exercise another function. By the very act of issuing their own paper they affect the amount of currency. In England the Bank of England, and in the United States all the banks, expand or contract the amount of circulation, of course, as they increase or curtail the general amount of their own paper. And this renders it necessary that they should be regulated and controlled. The question is, by what rule? To this I answer, by subjecting all banks to the rule which the most discreet of them always follow—by compelling them to maintain a certain fixed proportion between specie and circulation, without regarding deposits on one hand or notes payable on the other.

" There will always occur occasional fluctuations in trade, and a demand for specie by one country on another will arise. It is too much the practice, when such occurrences take place and specie is leaving the country, for banks to issue more paper, in order to prevent a scarcity of money. But exactly the opposite course should be adopted. A demand for specie to go abroad should be regarded as conclusive evidence of the necessity of contracting circulation. If, indeed, in such cases it could be certainly known that the demand would be of short duration, the temporary pressure might be relieved by an issue of paper to fill the place of departing specie. But this never can be known. There is no safety, therefore, but in meeting the case at the moment, and in conforming to the infallible index of the exchanges. Circulating paper is thus kept always nearer to the character, and to the circumstances of that of

" which it is designed to be the representative—the metallic money. This subject might be pursued, I think, and clearly illustrated; but, for the present, I only express my belief that, with experience before us and with the lights which recent discussions, both in Europe and America, hold out, a national bank might be established, with more regard to its function of regulating currency than to its function of discount, on principles, and subject to regulations such as should render its operations extremely useful."

The intrinsic soundness of these views, as well as the forcible clearness with which they are stated, must command attention. The individual from whose lips they fell has returned to his native country to witness, upon his first arrival, the consequences which have ensued from the rejection of his wise counsel—the suspension of specie payments,—the violent derangement of internal exchanges—the utter prostration of credit—and a ruinous interruption to the trading and commercial operations of the Union. In again urging upon his fellow-countrymen those measures by the timely adoption of which they might probably have averted the present crisis and may still protect themselves against its future recurrence, he will be strengthened by the impressive example of what has recently occurred.

As being our brethren in blood and in language, and still more as having staked even more deeply than ourselves, all their hopes of internal happiness and national prosperity upon the efficacy of free institutions, the American people must always command our warmest sympathies; as rivals in commercial activity and as connected with this country by mutual ties of the strongest interest, their prosperity must ever exert a powerful influence upon our welfare. The shock to which they have been exposed has been felt in its vibrations throughout the United Kingdom; and a regard for the prosperity of our own country, in concert with more generous sympathies, must create an anxious desire to see the monetary affairs of the United States established upon a sound and durable basis. To the measures necessary for this purpose, many national prejudices and possibly some party hosti-

lity may be opposed ; " Nations are slow and reluctant learners;" but the views of Mr. Webster, as above quoted, by the force of their own truth, and the vigorous exposition which he is capable of applying to them, must gradually impress themselves upon the conviction of a reflecting community. May this result be speedily brought about. The inter-commercial interests of both countries are involved in it. To the wise and the enlightened of his own country he must look for effectual cooperation ; whilst, from this side of the Atlantic, we can only offer to him our cordial sympathy and good wishes for success in his endeavours to obtain the establishment of " a National Bank, instituted with more regard to " its function of regulating currency than to its function of dis- " count,"—" a Bank able to restrain the excessive issues of " State Banks, and able also to furnish for the country a currency " of universal credit and of uniform value."

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(G.)

" We have seen that neither the range of general prices, the " rate of interest, the relative amount of currency at different " times, nor that of deposits, afford any fixed or certain rules " for the guidance of the issuers of paper-money, and that such " are to be sought for in the state of the exchanges alone. " What, then, is to be thought of our present system, wherein " one mass of issuers, the joint-stock banks and country bankers, " look almost exclusively to these fallacious criteria ; while the " Bank of England, which alone even pretends to adhere to " correct principles, is thwarted by the injudicious conduct of its " associates, and frequently embarrassed by the difficulties of its " own position in the twofold capacity of money-issuer and agent " for ordinary banking business ! No correct notions can ever " be formed upon the subject of currency, unless the business of " issue be clearly separated in the reader's mind from the other

" transactions which form the real and legitimate employments of  
" the banker. They are, in fact, not merely distinguishable,  
" but dissimilar, and, perhaps, irreconcilable. The rule of utility  
" would place the former exclusively in the hands of the Govern-  
" ment, to be exercised by it directly, or through the medium of  
" some delegated body as peculiar circumstances might render  
" most convenient, while the latter would be left perfectly free."

—*Norman on Currency and Banks*, p. 33.

THE END.

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